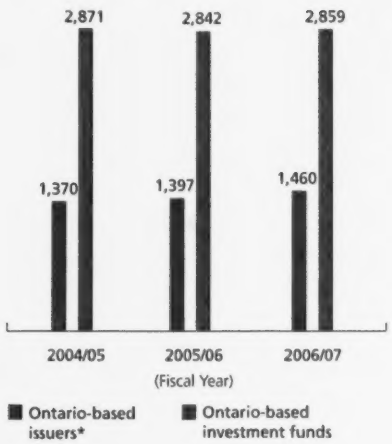
ONTARIO SECURITIES COMMISSION

OSC

2007 Annual Report

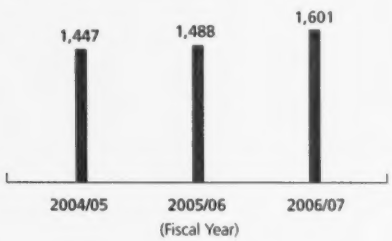
Safeguarding the integrity of Ontario's securities markets

Reporting Issuers

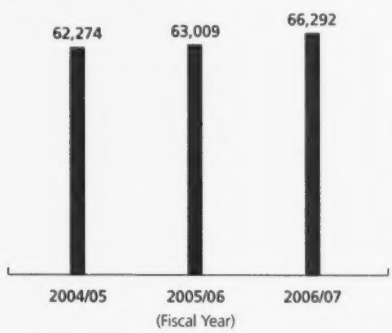


* Excluding investment funds

Registrant Firms



Individual Registrants



Our Role

The OSC safeguards and strengthens the integrity and soundness of Ontario's securities markets for the benefit of domestic and international investors and other market participants. We operate in a flexible and accountable manner that is responsive to the dynamic securities markets we regulate and in concert with other regulators in Canada and internationally.

Our Mandate

To provide protection to investors from unfair, improper or fraudulent practices, and to foster fair and efficient capital markets and confidence in capital markets.

Who We Regulate

The OSC regulates various types of capital market participants. These groups include persons or companies advising or trading in securities or commodities futures (unless under an exemption), public companies, investment funds, self-regulatory organizations, clearing agencies and marketplaces including exchanges, alternative trading systems and quotation and trade reporting systems.

2006 – 2007 Highlights

Investment fund governance

To improve investment fund governance, the Canadian Securities Administrators (CSA) adopted National Instrument 81-107 *Independent Review Committee for Investment Funds*. The rule requires all investment funds that are reporting issuers to establish an independent review committee (IRC) to oversee all decisions involving actual or perceived conflicts of interest faced by a fund manager.

See page 9.

Registration reform

The OSC published for comment proposed National Instrument 31-103 *Registration Requirements* in February 2007. The proposed rule would strengthen the registration regime by harmonizing, streamlining and modernizing the current registration requirements in all 13 CSA jurisdictions.

See pages 9 and 11.

Harmonized prospectus rule

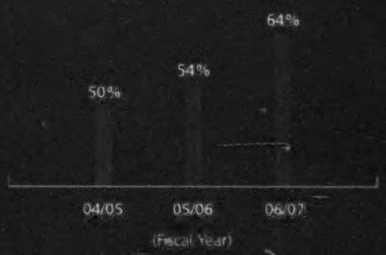
National Instrument 41-101 *General Prospectus Requirements* was published for comment as part of the effort to harmonize prospectus requirements across Canada. The proposed rule is aimed at providing market participants, including certain types of investments funds, with a consistent set of general prospectus requirements.

See page 9.

The Registration Reform Project would reduce the number of individual registration categories from more than 230 to about 30, and from over 25 firm registration categories to fewer than 10.

Percentage of Issuers Using Short Form Prospectuses (vs. Long Form Prospectuses)

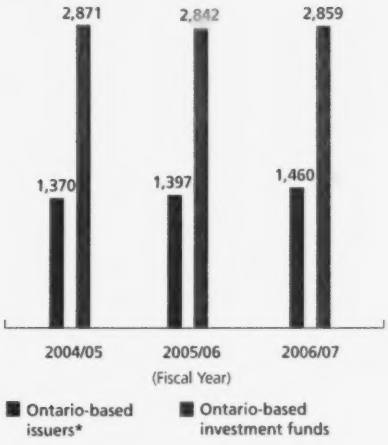
National Instrument 44-101 *Short Form Prospectus Distributions* introduced a broader set of basic qualification criteria that allowed more issuers to use the short form prospectus system and permitted greater access to the market on an expedited basis. As a result, the proportion of issuers using short form prospectuses versus long form prospectuses has increased over the last three years.



In This Report

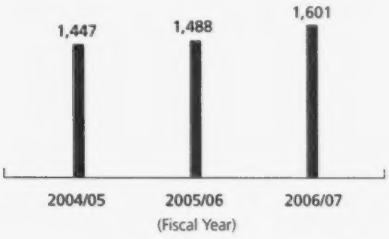
Letter from the Chair
The Commission
Responsive Regulation
Effective Compliance and Enforcement
Strong Investor Protection
The Way We Work
Message from the Executive Director
Organizational Chart
Executive Management Team
Contact Details
Management's Discussion and Analysis
Management's Responsibility and Certification
Auditor's Report
Financial Statements
Notes to the Financial Statements

Reporting Issuers

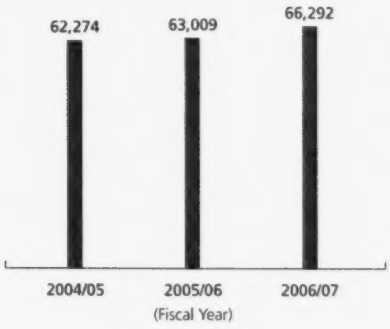


* Excluding investment funds

Registrant Firms



Individual Registrants



Our Role

The OSC safeguards and strengthens the integrity and soundness of Ontario's securities markets for the benefit of domestic and international investors and other market participants. We operate in a flexible and accountable manner that is responsive to the dynamic securities markets we regulate and in concert with other regulators in Canada and internationally.

Our Mandate

To provide protection to investors from unfair, improper or fraudulent practices, and to foster fair and efficient capital markets and confidence in capital markets.

Who We Regulate

The OSC regulates various types of capital market participants. These groups include persons or companies advising or trading in securities or commodities futures (unless under an exemption), public companies, investment funds, self-regulatory organizations, clearing agencies and marketplaces including exchanges, alternative trading systems and quotation and trade reporting systems.

2006 – 2007 Highlights

Investment fund governance

To improve investment fund governance, the Canadian Securities Administrators (CSA) adopted National Instrument 81-107 *Independent Review Committee for Investment Funds*. The rule requires all investment funds that are reporting issuers to establish an independent review committee (IRC) to oversee all decisions involving actual or perceived conflicts of interest faced by a fund manager.

See page 9.

Registration reform

The OSC published for comment proposed National Instrument 31-103 *Registration Requirements* in February 2007. The proposed rule would strengthen the registration regime by harmonizing, streamlining and modernizing the current registration requirements in all 13 CSA jurisdictions.

See pages 9 and 11.

Harmonized prospectus rule

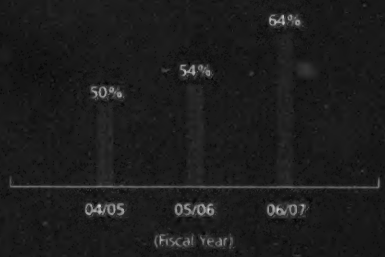
National Instrument 41-101 *General Prospectus Requirements* was published for comment as part of the effort to harmonize prospectus requirements across Canada. The proposed rule is aimed at providing market participants, including certain types of investments funds, with a consistent set of general prospectus requirements.

See page 9.

The Registration Reform Project would reduce the number of individual registration categories from more than 230 to about 30, and from over 25 firm registration categories to fewer than 10.

Percentage of Issuers Using Short Form Prospectuses (vs. Long Form Prospectuses)

National Instrument 44-101 *Short Form Prospectus Distributions* introduced a broader set of basic qualification criteria that allowed more issuers to use the short form prospectus system and permitted greater access to the market on an expedited basis. As a result, the proportion of issuers using short form prospectuses versus long form prospectuses has increased over the last three years.



In This Report

Letter from the Chair
The Commission
Responsive Regulation
Effective Compliance and Enforcement
Strong Investor Protection
The Way We Work
Message from the Executive Director
Organizational Chart
Executive Management Team
Contact Details
Management's Discussion and Analysis
Management's Responsibility and Certification
Auditor's Report
Financial Statements
Notes to the Financial Statements

Disclosure of executive compensation

Securities regulators published proposals designed to improve the disclosure of executive compensation by reporting issuers. Proposed Form 51-102F6 *Statement of Executive Compensation* would require disclosure of key aspects of compensation such as salary, bonus, stock and option awards and pension entitlements.

See page 10.

International enforcement conference

The OSC co-hosted an international securities enforcement conference to discuss ways to make greater use of databases with information gathered from intelligence operations in enforcement actions. The conference was attended by 150 delegates, including representatives of numerous foreign regulators and policing agencies, from 15 countries.

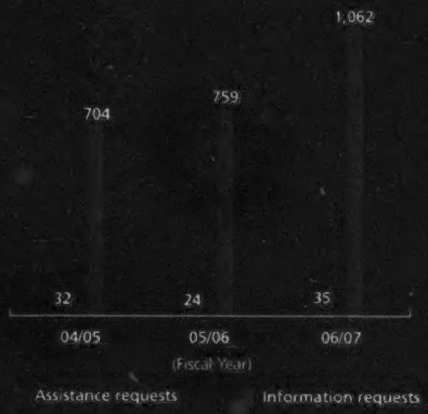
See page 14.

Investor Town Hall follow-up report

The OSC, together with the Investment Dealers Association of Canada, Mutual Fund Dealers Association of Canada and the Ombudsman for Banking Services and Investments, published a report outlining the progress made in addressing the concerns expressed by investors at the 2005 Investor Town Hall.

See page 17.

Assistance and Information Requests from International Regulators and Agencies



Total Direct Audience OSC Investor Communications Outreach Programs

David Wilson
Chair, Ontario Securities Commission

Letter from the Chair

Millions of investors put their hard-earned savings into Ontario's capital markets. They rely on these markets to help them prosper, fund their children's education and preserve their retirement savings. Indeed, virtually every Canadian now has a stake in the equity, bond or derivatives markets. These markets contribute directly to the financial well-being of individuals and the overall economy. As a regulator of the capital markets, the Ontario Securities Commission is working to safeguard the integrity of these markets.

The Commission performs this role by developing and administering rules and policies, enforcing rules and regulations and adjudicating cases. This is how we try to make a difference on behalf of investors, public companies and other market participants. It is imperative that they trust the integrity, fairness and competitiveness of the capital markets.

This annual report includes the Commission's audited financial statements and a description of its activities and affairs during the fiscal year ended March 31, 2007. The activities are grouped under the following themes:

- responsive regulation;
- effective compliance and enforcement;
- strong investor protection; and
- the way we work as an organization.

Disclosure of executive compensation

Securities regulators published proposals designed to improve the disclosure of executive compensation by reporting issuers. Proposed Form 51-102F6 *Statement of Executive Compensation* would require disclosure of key aspects of compensation such as salary, bonus, stock and option awards and pension entitlements.

See page 10.

International enforcement conference

The OSC co-hosted an international securities enforcement conference to discuss ways to make greater use of databases with information gathered from intelligence operations in enforcement actions. The conference was attended by 150 delegates, including representatives of numerous foreign regulators and policing agencies, from 15 countries.

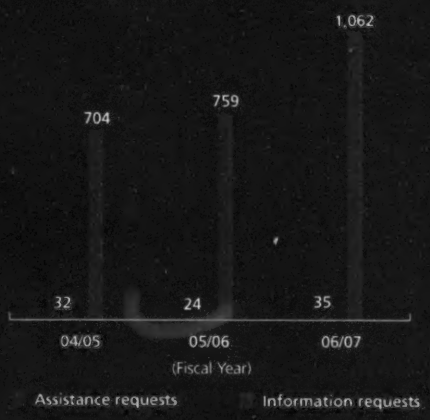
See page 14.

Investor Town Hall follow-up report

The OSC, together with the Investment Dealers Association of Canada, Mutual Fund Dealers Association of Canada and the Ombudsman for Banking Services and Investments, published a report outlining the progress made in addressing the concerns expressed by investors at the 2005 Investor Town Hall.

See page 17.

Assistance and Information Requests from International Regulators and Agencies



Total Direct Audience: OSC Investor Communications Outreach Programs

David Wilson
Chair, Ontario Securities Commission

Letter from the Chair

Millions of investors put their hard-earned savings into Ontario's capital markets. They rely on these markets to help them prosper, fund their children's education and preserve their retirement savings. Indeed, virtually every Canadian now has a stake in the equity, bond or derivatives markets. These markets contribute directly to the financial well-being of individuals and the overall economy. As a regulator of the capital markets, the Ontario Securities Commission is working to safeguard the integrity of these markets.

The Commission performs this role by developing and administering rules and policies, enforcing rules and regulations and adjudicating cases. This is how we try to make a difference on behalf of investors, public companies and other market participants. It is imperative that they trust the integrity, fairness and competitiveness of the capital markets.

This annual report includes the Commission's audited financial statements and a description of its activities and affairs during the fiscal year ended March 31, 2007. The activities are grouped under the following themes:

- responsive regulation;
- effective compliance and enforcement;
- strong investor protection; and
- the way we work as an organization.

We focus on these four key areas while carrying out the Commission's dual mandate to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in these markets. The Commission, management and staff work together to identify the important issues and respond to them in a timely, effective and efficient manner.

We also work closely with our counterparts across the country on initiatives to harmonize and modernize Canada's securities regulatory system. Furthermore, we are committed to delivering fair, vigorous and timely compliance and enforcement programs, while championing investor protection. The interests of investors will continue to be strongly reflected in our operations.

We introduced a metrics approach in the 2006 annual report to better measure our performance against the OSC's organizational goals, and to identify areas that needed improvement. This year, we increased the level of reporting as part of the effort to support and promote a more efficient and accountable organization. We made progress on many initiatives, but there is more work to do.

The OSC completed a significant transition during 2006-07. The transition brought fresh perspectives to the Commission and positive changes to the organization. James Turner and Lawrence Ritchie were appointed Vice-Chairs of the Commission in February 2007. Mr. Ritchie was a litigator for almost 20 years, specializing in general corporate, securities and commercial litigation. Mr. Turner has more than 30 years of experience as a legal practitioner in securities, mergers and acquisitions, and corporate governance. In addition, Margot Howard and Kevin Kelly were appointed Commissioners in December 2006. All of these appointees bring impressive expertise and experience to the Commission.

Former Vice-Chair Susan Wolburgh Jenah left the Commission in February 2007 to become Chief Executive Officer of the proposed self-regulatory organization that will emerge if the merger of the Investment Dealers Association of Canada and Market Regulation Services Inc. is approved. Also in February, former Vice-Chair Paul M. Moore retired from the Commission. On behalf of the Commission and staff, I want to extend our thanks, appreciation and best wishes to Susan and Paul.

"The Commission, management and staff work together to identify the important issues and respond to them in a timely, effective and efficient manner."

OSC Chair David Wilson

Our 2007-08 Priorities

The OSC's Statement of Priorities for 2007-2008 identifies the following four goals for fulfilling the mandate of the Commission:

1. Identify the important issues and deal with them in a timely way.
2. Deliver fair, vigorous and timely enforcement and compliance programs.
3. Champion investor protection, especially for retail investors.
4. Support and promote a more flexible, efficient and accountable organization.

www The OSC's Statement of Priorities for fiscal 2007-2008 can be found on www.osc.gov.on.ca.

In addition, I want to express our appreciation to Commissioners Theresa McLeod and Robert Davis, who left the Commission at the expiration of their terms of office in 2006-07.

All four of the former Commissioners served the Commission with integrity and made outstanding contributions to the regulatory framework in Ontario.

The Commission is benefiting from a renewed energy to face the many challenges of regulating today's dynamic capital markets. These challenges include protecting the interests of investors and continually improving compliance with, and enforcement of, securities laws. A timely and appropriate compliance and enforcement regime is integral to preventing harm to investors. I welcome the opportunity to work with the new executive team, senior management and staff as part of the daily effort of maintaining trust in our markets.

The management and staff of the OSC deserve congratulations for their dedication, hard work and accomplishments during a year of change. Thanks to the outstanding efforts of the Commissioners and staff, the OSC is in a strong position to safeguard and strengthen the integrity and soundness of Ontario's securities markets for the benefit of investors, issuers and other market participants, as well as the overall economy.

Sincerely,

David Wilson
Chair, Ontario Securities Commission

From left: Vice-Chair Lawrence Ritchie, Executive Director Peggy Dowdall-Logie, Chair David Wilson, Vice-Chair James Turner

The Commission

Chair
David Wilson

Vice-Chair
Lawrence Ritchie

Vice-Chair
James Turner

Lead Director
Robert Shirriff

Harold Hands

Wendell Wigle

The Ontario Securities Commission is the regulatory body responsible for overseeing Ontario's capital markets. It is a self-funded Crown corporation accountable to the Legislature through the Minister responsible for securities regulation. The Commission's mandate, established in the *Securities Act* and the *Commodity Futures Act*, is to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and commodity futures markets and confidence in those markets. The Commission is responsible for administering and enforcing the Acts and performing the duties assigned to it under the Acts and certain other legislation.

The *Securities Act* requires the Commission and the Minister to enter into a Memorandum of Understanding (MOU) every five years. The MOU sets out the accountability relationship and describes the respective roles and responsibilities of the Minister and the Chair and Board of Directors of the Commission. This includes the requirement to provide the Minister every year with an annual report and annual business plan.

In addition to the requirements set out in the Acts and the MOU, the Commission has adopted a Charter of Corporate Governance Roles and Responsibilities to enhance transparency in its governance structure. The Charter describes how Members of the Commission discharge their various statutory responsibilities and duties through two independent but related roles: as regulators and as directors serving on the Board.

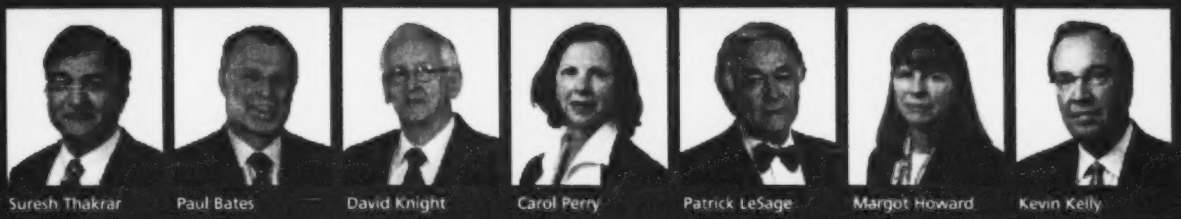
Role of Members as Regulators

In its regulatory role, the Commission has both a policy function and an adjudicative function. It regulates capital markets by making rules that have the force of law and by adopting policies that influence the behaviour of market participants including, generally, public issuers of securities and anyone who sells securities in Ontario or gives advice about

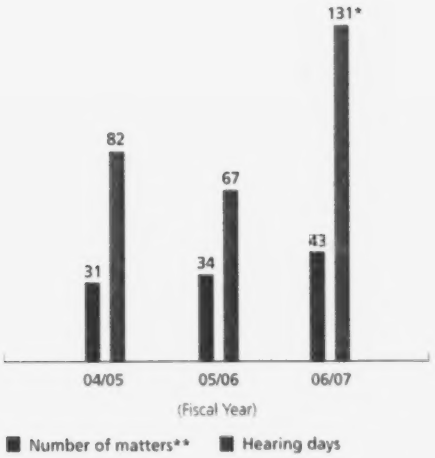
"The OSC demands the highest standards of integrity not only from market participants, but also from itself. Each of the Commissioners, through a commitment to sound governance principles and practices, promotes a strong ethical culture within the OSC. It is a job we take very seriously."

Lead Director Robert Shirriff

WWW The current MOU, dated May 26, 2003, can be found on the OSC website at www.osc.gov.on.ca.



Hearings Before the Commission



* Six days were related to take-over hearings and the remainder were related to enforcement proceedings.

** Includes contested and settlement hearings, reviews of decisions of the Director and of SROs, pre-hearing conferences and extensions of cease trade orders.

investing in securities. The Commission follows a statutory process that provides opportunities for the public to comment during the development of rules and policies. Any proposed rule must be delivered to the Minister for his consideration. The Commission also sets its regulatory priorities on an annual basis and Members oversee their implementation by OSC staff.

As a regulatory body, the Commission meets every two weeks to consider policy and regulatory initiatives. In fiscal year 2006-07, the full Commission held 25 regular meetings (see table on page 6). The Commission, as a whole, has the responsibility to oversee the OSC's adjudication processes and procedures generally. Panels of Members, acting independently as adjudicators, preside over hearings on enforcement matters and issues of regulatory policy, hear appeals of adjudicative decisions of self-regulatory organizations, and review decisions made by OSC staff. The Chair of the Commission oversees operational decisions related to enforcement and does not sit on adjudicative panels.

In the exercise of the Commission's adjudicative responsibilities, panels heard a total of 43 matters over 131 hearing days during the fiscal year. Commission hearings are generally open to the public.

The Commission has adopted Rules of Practice that govern proceedings before its adjudicative panels. The rules encompass such matters as disclosure, motions, pre-hearing conferences and hearings. These rules are available on the OSC website (www.osc.gov.on.ca).

The Commission's Adjudicative Committee reviews and evaluates the Commission's adjudicative procedures and practices and recommends improvements, as appropriate, from time to time.

Role of Members as the Board

As the Board of Directors, the Members oversee the management of the OSC's financial and other affairs, including strategic planning, financial reporting procedures and the effectiveness of internal controls. Under the *Securities Act*, the Chair of the Commission is Chair of the Board and the Chief Executive Officer. The Commission is aware that its corporate governance practices should be robust, transparent and, where applicable, conform to the best practices advocated for public companies, as they evolve. Therefore, the Commission appoints a part-time Member as Lead Director to enhance the Board's capacity for independent oversight.

Acting in consultation with the Chair and the Chairs of Board Committees, the Lead Director is responsible for overseeing the operations of the Board to ensure that it carries out its responsibilities effectively. The functions and responsibilities of the Lead Director also include providing, in co-operation with the Chair and other Members, the leadership necessary to offer assurance that the effectiveness of the Board and its Committees is assessed regularly and that the committee structure and committee mandates are appropriate and adequate to support the discharge of the Board's responsibilities.

As a Board, the Commission holds regular meetings of the full Board, as well as of the Audit and Finance, Governance and Nominating, and Human Resources and Compensation standing committees. In 2006-07, the full Board held five regular meetings and two special meetings (see table at right).

Appointments to the Commission

The Commission has developed a profile of the skills, qualifications and areas of expertise that Members should possess to provide effective stewardship. This ensures that the Board's recruitment of candidates will allow it to maintain the collective mix of expertise and skills to enable the Commission to fulfil its statutory mandate. All appointments are made through the Public Appointments Secretariat (PAS) procedures, which include the posting of available positions. Every Member of the Commission is appointed by the Lieutenant Governor in Council for a fixed term.

Commitment to governance

As part of its commitment to transparency and accountability, the Commission regularly reviews its governance structure and practices to ensure they conform, where appropriate for a regulatory body, with those advocated for public companies.

The average length of time for the Commission to render a decision is approximately **30** days following a hearing.

Meetings of the Commission in 2006-07

	Regular Meetings	Special Meetings
Commission	25	1
Board	5	2
Committees		
Audit and Finance Committee	7	2
Governance and Nominating Committee	4	6
Human Resources and Compensation Committee	1	2
Adjudicative Committee	4	1

In fiscal year 2006-07, attendance by Members at meetings of the Commission, Board and the various committees was **90** percent.

For example, in the past year the Commission introduced an annual evaluation of the Board, approved a Member profile, and revised the committee mandates. Moreover, Members are required to adhere to the OSC's by-laws and Code of Conduct and are expected to maintain the highest ethical standards of conduct while fostering a culture of integrity within the Commission.

www A detailed description of the Commission's governance structure, including the Charter and Committee mandates, is available on www.osc.gov.on.ca, along with biographical information about each Member.

Terms of Commissioners

(As at March 31, 2007)

Name	Appointed	Current term expires
Paul K. Bates	June/03	June/09
Harold P. Hands	April/02	April/08
Margot C. Howard	December/06	December/08
Kevin J. Kelly	December/06	December/08
David L. Knight	August/04	August/07
Patrick J. LeSage	December/05	December/08
Carol S. Perry	February/05	February/08
Lawrence E. Ritchie	February/07	February/12
Robert L. Shirriff	March/02	March/08
Suresh G. Thakrar	June/03	June/09
James E. A. Turner	February/07	February/12
Wendell S. Wigle	May/03	May/09
W. David Wilson	November/05	November/10

Vice-Chair Susan Wolburgh Jenah resigned from the Commission in February 2007. The terms of office of Vice-Chair Paul M. Moore, M. Theresa McLeod and Robert W. Davis expired in 2006-07. The Commission extends its appreciation to these Commissioners for their service and contributions.

Responsive regulation

Identify the important issues and deal with them in a timely way

Fostering fair and efficient capital markets in Canada is a collective initiative, involving securities regulators, self-regulatory organizations (SROs), governments and market participants. Co-operation is an integral aspect of maintaining a responsive, efficient and internationally-competitive regulatory regime so that the capital markets contribute to the health of the Canadian economy.

The OSC worked constructively in 2006-07 with the Government of Ontario, Canadian Securities Administrators (CSA), SROs and market participants to strengthen the regulatory system. This collaboration resulted in significant initiatives that further harmonized, streamlined and modernized securities laws and contributed to improving market efficiency while easing the regulatory burden on market participants.

The Registration Reform Project would reduce the number of individual registration categories from more than 230 to about 30, and from over 25 firm registration categories to fewer than 10.

Submissions to National Registration System (NRS) by Registrants

Regulators received 5,156 NRS submissions for registration of individuals in multiple jurisdictions. Submissions were up 23% from the previous year due to increased usage of NRS. These submissions resulted in 23,383 applications before regulators. On average, most NRS submissions applied in four to five jurisdictions. As a result, registrants had about three-quarters fewer contacts with securities regulators across the country. The OSC received 2,509 submissions, up 28% from 1,954 the previous year. The OSC was the principal regulator in 1,647 or 66% of the NRS submissions it received.

Fiscal Year	2005-06	2006-07
Total submissions	4,187	5,156
Share received by OSC	1,954	2,509
Total applications before regulators	12,802	23,383

Fund governance and valuation

Until recently, there was no requirement in Canada for independent oversight of potential conflicts of interest in the operation of investment funds. The OSC and the CSA introduced a governance regime for investment funds through National Instrument 81-107 *Independent Review Committee for Investment Funds*, which came into force on November 1, 2006. The rule imposes a minimum, consistent standard of independent oversight for investment funds in Canada. The rule requires all publicly offered investment funds that are reporting issuers to have in place by November 1, 2007, an independent review committee (IRC) to oversee actual and perceived conflicts of interest faced by the fund manager in the operation of the fund. The rule is consistent with governance principles articulated by the International Organization of Securities Commissions (IOSCO).

To respond to the new international accounting standards regarding the valuation practices for financial instruments, the OSC and the CSA worked with the investment fund industry to prepare amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure*. The amendments provide guidance on fair value principles for calculating net asset value and eliminate the need for fund managers to change their valuation practices. The CSA plans to publish the amendments for comment in fiscal 2007-08.

Registration reform

Working with the CSA, the OSC published proposals in February 2007 which would harmonize and strengthen the registration regime for firms and individuals across the country. Proposed National Instrument 31-103 *Registration Requirements*, if implemented, would create one national set of registration requirements rather than 13. The proposal also sets out conduct requirements for individuals and firms, and introduces a consistent compliance framework. The proposed regime would require the registration of managers of all investment funds, including hedge funds. Overall, a single registration regime should reduce some of the regulatory costs for many market participants, improve regulatory efficiencies and contribute to investor protection.

Prospectus requirements

The OSC also worked with the CSA to publish proposals to harmonize and streamline local, multilateral and national prospectus requirements for public companies and certain investment funds. Proposed National Instrument 41-101 *General Prospectus Requirements* (NI 41-101), published for comment in December 2006, would replace and consolidate over 200 specific requirements in various local and national policies, rules and regulations across the country relating to

prospectus offerings. NI 41-101 is intended to simplify reporting requirements for issuers and reduce the costs of compliance with securities legislation.

Hedge funds

Hedge funds have attracted considerable public attention as investment alternatives to conventional products. In response to the increased retail interest, the OSC led a CSA review of hedge funds in 2005-06. The sample-based project was conducted through a combination of disclosure reviews, compliance reviews of fund managers and advisers, and industry consultations. Results of the review were released in CSA Staff Notice 81-316 *Hedge Funds* in January 2007.

The CSA determined that, while an appropriate securities regulatory framework currently exists for hedge funds, certain areas should continue to be monitored or improved, including the registration of fund administrators, Principal Protected Notes and referral arrangements. The notice sets out the CSA's views on how these areas will be monitored or improved.

Income trusts

To address emerging issues related to income trusts, the CSA published Staff Notice 51-319 *Report on Staff's Second Continuous Disclosure Review of Income Trust Issuers* in August 2006. The notice discussed the regulators' findings and recommendations developed from the continuous disclosure reviews of 45 income trust reporting issuers.

In general, the results suggested a need for a significant improvement in disclosures provided by income trust issuers, particularly as they relate to the reporting of distributable cash in the MD&A. Insufficient disclosures of assumptions and adjustments that underlie the distributable cash calculation could make comparisons between issuers difficult. These and other issues were addressed in the proposed amendments to National Policy 41-201 *Income Trusts and Other Indirect Offerings*, published for comment in January 2007.

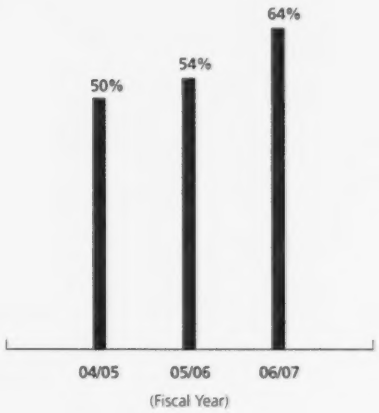
Executive compensation

Disclosure was also a key element of a regulatory reassessment of executive compensation in 2006. The OSC and other CSA members analyzed current executive compensation disclosure requirements, particularly in light of recent changes to the disclosure rules of the U.S. Securities and Exchange Commission.

Regulators consulted with internal and external groups, and concluded there was a general dissatisfaction with disclosure requirements in this area in that they did not reflect current practices or address investor needs. In March 2007, the CSA published for comment an amended Form 51-102F6 *Statement of Executive Compensation* to address these concerns.

Percentage of Issuers Using Short Form Prospectuses (vs. Long Form Prospectuses)

National Instrument 44-101 *Short Form Prospectus Distributions* introduced a broader set of basic qualification criteria that allowed more issuers to use the short form prospectus system and permitted greater access to the market on an expedited basis. As a result, the proportion of issuers using short form prospectuses versus long form prospectuses has increased over the last three years.



Percentage of priority rule-making initiatives on track:

90%: target in 2006-07

91%: actual in 2006-07

Registration Reform

One significant harmonization initiative in 2006-07 was proposed National Instrument 31-103 *Registration Requirements*, published for comment in February 2007. The OSC played a lead role in drafting the proposed rule, which is a key part of the CSA's Registration Reform Project.

If implemented, the proposed rule would harmonize existing registration requirements in various Acts, rules and regulations in Canada into a common national rule. In Ontario, the rule would amend or revoke more than 20 OSC rules, regulations and notices. It would also reduce the number of registration categories for individuals and firms, and establish one set of conduct rules and registration requirements.

Registrants would benefit from lower compliance costs and, ultimately, reduced regulatory burden. Investors would benefit from the related proposals to amend SRO by-laws in connection with activities such as account opening, performance reporting and costs and conflicts.

WWW To find out more information on the Registration Reform Project, visit www.rrp-info.ca.

Looking ahead

- We plan to continue making progress in strengthening the registration regime by harmonizing, streamlining and modernizing current registration requirements.
- We will continue to improve disclosure of executive compensation by proposing amendments to National Instrument 51-102 *Continuous Disclosure Obligations*.
- We will work to complete and implement revised National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* to bring greater transparency to the state of internal control over financial reporting by issuers.

Internal control

In 2005, the CSA consulted extensively on its proposals for reporting issuers to report publicly on their internal control over financial reporting. Revisions to the initial proposals were unveiled in March 2006 when the CSA announced a plan to expand Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (MI 52-109) to address internal control over financial reporting. After further consultations, the CSA published for comment revised National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* in March 2007. The revised rule, which would replace MI 52-109, seeks to improve the quality, reliability and transparency of required filings under securities laws, including annual and interim financial statements.

Securities settlement system

OSC staff also contributed to initiatives to improve the securities settlement system and reduce the potential for systemic risk. One initiative was the *Uniform Securities Transfer Act (USTA)* project in Canada, which introduced a modern legal framework for the holding, transfer and pledge of securities. The USTA project was a joint initiative of a CSA task force, led by OSC staff, and the Uniform Law Conference of Canada. As of March 2007, the provinces of Ontario, Alberta, Saskatchewan and British Columbia had enacted or introduced near-uniform legislation based on the USTA. The USTA clarifies property rights in securities, reduces cost and risk in the settlement system, and enables more precise analysis of securities holding practices for regulatory purposes.

International co-operation

To promote harmonization among international regulators, the OSC contributes to the policy-making initiatives of several organizations. The OSC is actively involved with IOSCO, the Council of Securities Regulators of the Americas and the North American Securities Administrators Association. During the past year, the OSC contributed to the development of international best practices in areas such as fund governance and hedge fund valuation.

The OSC will continue to identify and respond to important regulatory issues and deal with them in a timely and efficient manner, in consultation with other securities regulators, SROs, market participants and investors. Our shared goal is to promote a harmonized and strengthened securities regulatory framework that fosters fair, efficient and robust capital markets across Canada.

WWW Documents related to the above rules, policies and notices are available on www.osc.gov.on.ca.

Effective compliance and enforcement

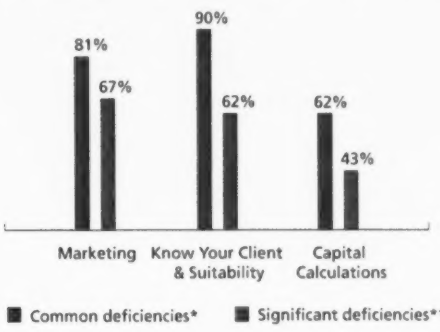
Deliver fair, vigorous and timely enforcement and compliance programs

In any regulatory regime, compliance is key to the effectiveness of rules and regulations. A strong compliance program and enforcement presence are critical to deter undesirable behaviour in the capital markets, protect investors and, when necessary, remove from the capital markets participants who do not comply with securities laws.

The OSC focuses on co-operation as a key strategy to proactively prevent, detect and deter misconduct in the capital markets. OSC staff work together and with other securities regulators, self-regulatory organizations (SROs) and external agencies, when appropriate, to enhance the effectiveness of compliance and enforcement initiatives.

Compliance Reviews of Advisers in 2006-07

Top three significant deficiencies vs. common deficiencies



* Common deficiencies are deficiencies found most frequently in reviews of advisers.

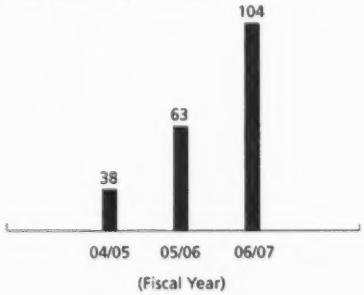
** The OSC established various criteria to assess whether a deficiency is significant including risk to clients, conflicts of interest, misleading information to clients and ineffective compliance structure. In addition, we take into account other factors such as best execution and referral arrangements, frequency of findings and impact of the deficiency on a market participant's operations.

Results of Prospectus and Continuous Disclosure Reviews of Issuers* in 2006-07

* Excluding investment funds

Restatements and Refilings Made by Issuers*

The increase in the number of restatements and refilings is a result of the deficiencies identified during regulatory reviews over the past three years. The chart below represents the number of restatements and refilings made by issuers.



* Excluding investment funds

Compliance reviews

Staff in the operational Branches – Corporate Finance, Capital Markets and Investment Funds – have conducted compliance reviews and participated in other cross-Branch compliance initiatives. These reviews and initiatives help to find and correct deficiencies in disclosure, accounting and other areas. On occasion, Enforcement Branch staff have worked with these other Branches on specific issues arising from compliance reviews. Staff from the Corporate Finance, Investment Funds and Capital Markets Branches refer cases to Enforcement when warranted by the findings of a compliance review. This combining of staff resources allows the expertise of each Branch to be utilized.

During the past year, one area of continued focus for reviews by Corporate Finance staff was the income trust sector and the adequacy of distributable cash disclosures, given that the presentation of these disclosures has been a source of concern (see CSA Notice 51-319 *Report on Staff's Second Continuous Disclosure Review of Income Trust Issuers).* In addition, staff initiated a targeted review of compliance with the audit committee and corporate governance requirements in order to assess the adequacy of compliance with these relatively new requirements.

Targeted reviews

In addition to regular ongoing reviews, the compliance team of the Capital Markets Branch completed two targeted reviews during the fiscal year. One review concerned the marketing practices used by registered advisers (see top chart at left). A staff notice will be issued to summarize the findings of this review. The other review, conducted in co-operation with the Investment Funds Branch, focused on sales practices used by fund managers and whether they complied with National Instrument 81-105 *Mutual Fund Sales Practices* (Part 5). OSC Staff Notice 11-760, released in April 2007, summarized the findings of this review and provided guidance on complying with the rule's requirements. In both cases, approximately 20 reviews were completed. The compliance team also issued OSC Staff Notice 11-758 *Review of Limited Market Dealers* resulting from a review in the prior fiscal year.

Integrated approach

The Investment Funds Branch also worked closely with the Capital Markets and Enforcement Branches on specific cases. For example, a review of an exemptive relief application conducted by the Investment Funds Branch resulted in a focused field review of a fund manager by compliance staff in the Capital Markets Branch. This then led to the Enforcement Branch issuing a statement of allegations that the fund manager breached its duty of care to its funds.

The Investment Funds Branch reviews the disclosure and marketing materials prepared by Ontario-based investment funds. In 2006-07, staff selected the first sample of investment funds and focused on compliance with the new disclosure rule, National Instrument 81-106 *Investment Fund Continuous Disclosure*. The Branch issued formal comment letters to fund managers which led to in-depth discussions with the industry on various continuous disclosure issues. The OSC plans to issue a report detailing the issues we identified in these reviews and offering guidance for improvements to disclosure.

Domestic and international co-operation

The Enforcement Branch works closely with other securities regulators, SROs and law-enforcement agencies, both domestic and international. Market Regulation Services Inc. (RS) refers irregular or suspicious trading activity on equity exchanges to the OSC within five business days. The OSC also receives referrals from the Investment Dealers Association of Canada (IDA). In the past fiscal year, the OSC received a total of 79 referrals from RS and the IDA.

The OSC and the RCMP are partners through the Integrated Market Enforcement Teams (IMETs) initiative. Presently, three OSC staff have been seconded to the Toronto IMET. As well, the Toronto IMET seconded two RCMP staff to the Joint Securities Intelligence Unit (JSIU). The JSIU is made up of staff from the OSC, RCMP and IDA, and is located at the OSC. Its mandate is to detect and deter criminal activity in the capital markets.

Information sharing

The JSIU is an invaluable resource, not only for the OSC, but also for its regulatory and law-enforcement partners in Canada and abroad. In 2007, the JSIU completed more than 46,000 information requests from OSC Branches. It also completed approximately 14,000 information requests from Canadian securities regulators and law-enforcement agencies, and approximately 1,000 information requests from foreign regulators (see table at below right). This sharing of information demonstrates the OSC's commitment to providing assistance to its partners in the fight against economic crime.

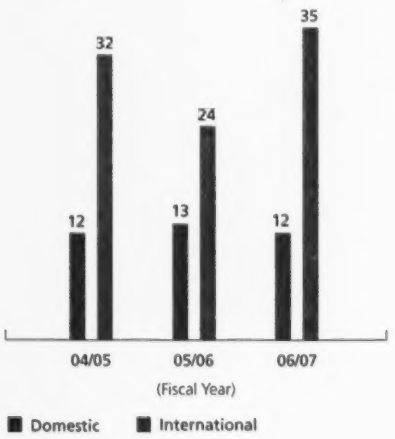
The OSC and its JSIU partners co-hosted an international securities enforcement conference in Toronto in September 2006. The objective was to develop ways to make greater use of databases with information gathered from intelligence operations in enforcement actions. The event brought together 150 delegates from 15 countries and featured speakers from the RCMP, U.S. Securities and Exchange Commission, Federal Bureau of Investigation, London Metropolitan Police, Australian Securities and Investments Commission and the OSC.

Enforcement Investigations by Category

As at March 31, 2007, the Enforcement Branch had 47 matters in Investigations, as follows:

Investigation Type	
Abusive trading practices	5
Disclosure	7
Illegal insider trading	14
Registrant misconduct	7
Trading without registration and/or prospectus	14
Total	47

Assistance Requests from Domestic and International Regulators and Agencies



Information Requests to the Joint Securities Intelligence Unit

Fiscal Year	2004-05	2005-06	2006-07
OSC	25,737	38,126	46,274
Domestic	14,156	15,555	14,040
International	704	759	1,062

Concluded Settlement and Contested Hearings before the Commission*

Fiscal Year	2004-05	2005-06	2006-07
Number of Proceedings	25	30	22
Individual respondents	24	38	31
Corporate respondents	12	17	6
Sanctions include:**			
Cease Trade Orders	18	17	18
Exemptions removed	7	11	14
Director and Officer bans	12	21	12
Registration restrictions	10	11	5

* In addition, there were 24 cases in the courts within the fiscal year.

** In addition, there was $1,658,399 consisting of administrative penalties, settlement amounts and costs imposed during the fiscal year.

Enforcement Timelines

Fiscal Year	2004-05	2005-06	2006-07
Intake Units			
Number of Files/Cases Assessed			
Transferred to Investigations	34	51	50
Referred to another agency	32	34	43
Closed***	197	315	328
Total	263	400	421
Average number of months	4.1	2.4	2.0
Investigation Units			
Number of Files			
Transferred to Litigation	20	20	16
Closed	15	12	25
Total	35	32	41
Average number of months	12.8	9.8	9.5

Looking ahead

- We will continue to play a leadership role by co-chairing the Securities Fraud Enforcement Working Group in 2007. At the request of the federal and provincial justice ministers, the Working Group will develop recommendations to improve enforcement of laws against securities fraud in Canada.
- We will increase the number of enforcement proceedings commenced within four months of the date of transfer to litigation, where there have not been settlement discussions.

The OSC has also taken the lead in training regulatory staff in the Market Integrity through Computer Analysis (MICA) program. Regulators and law enforcement agencies use MICA for investigations involving manipulative trading. In the past year, OSC staff trained investigators from the British Columbia Securities Commission, Alberta Securities Commission, Autorité des marchés financiers, Nova Scotia Securities Commission, IDA and RCMP at several training sessions in Calgary, Ottawa and Toronto.

To improve co-operation at the international level, the OSC works with foreign regulators to help close regulatory gaps and break down barriers where fraudulent schemes cross jurisdictions. The OSC is one of 41 signatories to the International Organization of Securities Commissions' Multilateral Memorandum of Understanding (MMOU). The MMOU has been effective in encouraging regulators to share information and provide assistance on cross-border enforcement-related matters.

The OSC also offers assistance to developing jurisdictions. For example, staff from the Office of Domestic & International Affairs participate as program leaders in seminars organized by the Toronto International Leadership Centre for Financial Sector Supervision (Toronto Centre) to help educate representatives from securities commissions in numerous countries.

Public awareness

Public awareness is a powerful ally to prevent and detect misconduct. Through community outreach and other initiatives, the OSC communicates directly to investors to help them learn how to recognize questionable investment products, and ultimately, protect themselves.

One example of this kind of initiative is the Investor Watch program. The OSC investor communications team, as part of the CSA Investor Education Committee, launched a national Investor Watch program in 2006 to raise awareness of important issues to investors across the country. In 2006-07, the CSA issued Investor Watch bulletins on topics such as spam e-mail investment promotions. Investor Watch bulletins are available on the OSC website (www.osc.gov.on.ca).

*** Intake units conduct initial analyses on all matters referred to the Branch. The criteria to determine which enforcement matters are pursued through full investigations are set out in OSC Staff Notice 11-719 *A Risk-based Approach for More Effective Regulation*. Factors considered include whether there is evidence that securities laws were breached and the losses involved. Other matters are referred to the appropriate investigative agency or closed.

Go to www.osc.gov.on.ca to read more about the regulatory priorities of the OSC in its Statement of Priorities for 2007-08.

Strong investor protection

Champion investor protection, especially for retail investors

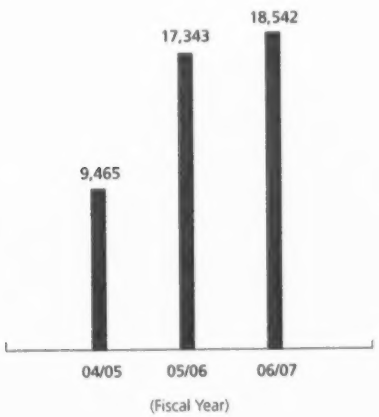
The OSC's evolving relationship with investors is being influenced by three trends that have magnified the importance of providing protection to investors. The first trend is the onset of retirements among baby boomers. The second is a massive inter-generational transfer of wealth through inheritances from the parents of the baby boom generation. The third trend, occurring in the workplace, involves the gradual shift away from employer-sponsored defined benefit pension plans and toward defined contribution savings plans. More than ever, individual Canadians bear the responsibility for their financial planning, including investments.

The capital markets play a vital role in preserving and growing the personal wealth of Canadians. Virtually every Canadian is invested in the capital markets, either through RRSPs, direct investments, pension funds and/or the Canada Pension Plan. Investors must have confidence in the integrity and fairness of these markets. As the regulator of Ontario's capital markets, the OSC is mandated to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in those markets. In the 2006-07 fiscal year, the OSC made progress in its work with investors – but there is still more work to do in consulting investors, communicating in plain language and supporting investor education.

OSC Website Visits

Fiscal Year	Visits
04/05	1,019,015
05/06	1,164,509
06/07	1,154,378

Total Direct Audience: OSC Investor Communications Outreach Programs



Working with investors

The OSC is working to better understand and address the needs of investors, particularly retail investors. Moreover, we strive to ensure investors' interests and needs are appropriately represented in all our operations. Senior OSC staff met five times last year with the Investor Advisory Committee (IAC). The IAC members are volunteers who have knowledge of securities issues as they affect retail investors, as well as experience representing the needs of investors on a broad scale. The IAC is one of 13 advisory committees established by the OSC to provide input and advice on important issues related to securities regulation.

In its consultations with OSC staff and management, the IAC provides advice on issues that affect investors and ensures investors' views are communicated to the Commission. The IAC identified the adviser-client relationship, the complaints process, and disclosure and transparency as three key issues to be examined by the committee in 2007-08.

Responding to concerns

The IAC has increased the level of consultation between the OSC and investors in the wake of the 2005 Investor Town Hall. The four organizations that participated in the Investor Town Hall – the OSC, Investment Dealers Association of Canada (IDA), Mutual Fund Dealers Association of Canada (MFDA) and Ombudsman for Banking Services and Investments (OBSI) – made commitments at that event to respond to the concerns expressed by investors.

In July 2006, the OSC, IDA, MFDA and OBSI released a joint report, titled *A followup to the Investor Town Hall: Reporting on our progress*. The report outlined the progress the organizations have made in areas such as improving communications with investors, providing better access to information and consulting investors.

Effective communication with stakeholders is an essential part of the regulatory process and helps the OSC achieve the appropriate balance between protecting investors and fostering fair and efficient markets.

Complaint resolution

Investors should be aware of the options available to them for pursuing claims. The OSC is working with the IDA, MFDA and OBSI toward the goal of enhancing investor awareness of, and access to, existing mechanisms for the resolution of complaints and restitution. Specifically, the co-operative efforts of a joint working committee of executives and senior management from the four organizations, formed after the 2005 Investor Town Hall, resulted in measures to improve complaint-handling and communication about complaint-handling such as measures that:

- provide more assistance and continuity for investors who contact the four participating organizations, including assistance in navigating the complaint-handling system; and
- provide investors with plain language communications about complaint handling which are consistent across the four organizations.

Outreach

The OSC's major investor communications outreach initiative in 2006-07 was the "Check Before You Invest" campaign. The message to investors was that 'there are some key things to check before you invest to help you make informed decisions and protect your money.' The outreach campaign reinforced its messages through a website (www.checkbeforeyouinvest.ca), advertising and media initiatives throughout Investor Education Month in October 2006 and the 2007 RRSP season.

OSC staff in the Inquiries & Contact Centre also incorporated messages of the "Check Before You Invest" campaign, where appropriate, into their communications with the public.

Inquiries staff received a total of 32,768 inquiries by telephone or e-mail in 2006-07, as well as 1,086 written complaints. The Contact Centre receives inquiries from a variety of stakeholders, including retail investors, registrants and public companies. Staff respond to inquiries and also handle the initial review of written complaints.

See sidebar on page 22 about how the OSC handles inquiries.

Disposition of Online Tips

Online tips are typically anonymous pieces of information and leads about possible violations of securities law provided by individuals.

Fiscal Year	2005-06	2006-07
Forwarded to Enforcement	54	18
Directed to SROs or other agencies	14	4

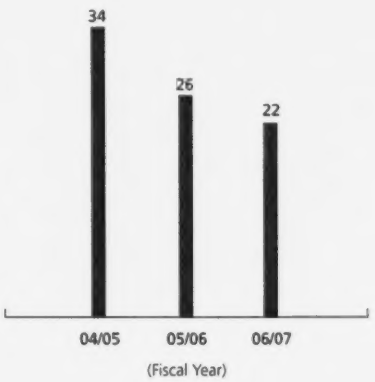
The online tips form is available on www.osc.gov.on.ca.

Inquiries and Written Complaints to the OSC

Fiscal Year	2004-05	2005-06	2006-07
Written complaints	679	1,206	1,086
Inquiries			
telephone	32,327	30,535	26,595
e-mail	5,327	6,121	6,173
Total inquiries	37,654	36,656	32,768
Total contacts	**38,333**	**37,862**	**33,854**

Average Days to Respond to Complaints

Complaints are allegations about possible violations of securities law or other improper conduct involving a public company, investment product, salesperson, firm or individual. The numbers below represent the number of days taken to complete the research, analysis and response to written complaints to the OSC.



Most Common Complaints to the OSC

Represents 71% of the total complaints

Fiscal Year	2006-07
Proceedings, hearings and investigations*	195
Customer service issues**	178
Reporting issuer matters	159
Alleged scams and frauds	124
Alleged illegal insider trading or self dealing	120

* Issues related to proceedings, administrative hearings and investigations, including complaints about individual respondents, settlements or companies under investigation.

** Issues related to service in the financial markets, such as fee levels, response times, account transfers, etc.

Most Common Inquiries to the OSC

Represents 73% of the total inquiries

Fiscal Year	2006-07
General inquiries and questions	14,123
Requests from registrants and investors	3,125
Requests from insiders and issuers	2,742
Reporting issuer matters	2,053
Alleged scams and frauds	1,875

Looking ahead

The OSC will participate in the second Investor Town Hall on October 24, 2007. The event, to be held at the Metro Toronto Convention Centre, is an opportunity for investors to speak directly to the OSC, Investment Dealers Association of Canada, Mutual Fund Dealers Association of Canada and the Ombudsman for Banking Services and Investments. These four agencies co-hosted the first Investor Town Hall in 2005.

When individuals call the Contact Centre with questions about investment opportunities, staff take the opportunity to help them understand:

1. what their investment objectives are;
2. who they are dealing with;
3. what they are investing in; and
4. where to go for help, if necessary.

Assisting retail investors

Staff will offer to check the registration status of an investment adviser, and look for characteristics of the investment product that might raise concerns. They also try to help the public understand the important role that an adviser can play in assisting retail investors. However, in their dealings with the public, OSC staff do not recommend investments or offer advice. (For information on the most common complaints and inquiries, see tables at left.)

Plain language culture

In its communications with investors, the OSC increasingly uses plain language. A plain language editor is overseeing the transition to a plain language culture, and provides editing and consulting support to OSC Branches on key projects and critical documents. More than 300 employees have received training in plain language. And all OSC consumer brochures, including *Making a Complaint*, have been revised in plain language, in English and French, to make them easier to understand.

The OSC is participating in a joint project that is incorporating plain language principles in the development of a new point-of-sale disclosure regime for mutual funds and segregated funds. OSC staff is working with the Canadian Securities Administrators and insurance regulators to develop a two-page prototype point-of-sale disclosure document that contains key information about the product, sales charges and fees. The document would help investors make informed decisions by providing relevant information in an easy-to-understand format. Regulators are expected to publish proposals in 2007.

"Helping retail investors get a fair deal is an absolute priority for the OSC," said OSC Chair David Wilson in a speech at Dialogue with the OSC on November 10, 2006. "We're off to a solid start, but we have work to do."

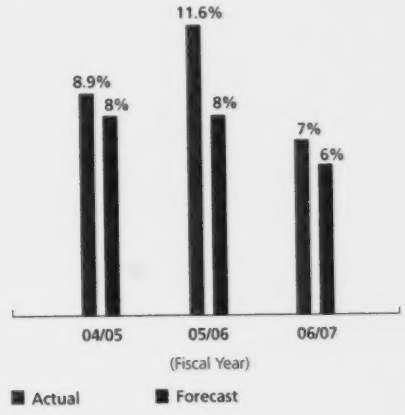
WWW The OSC added a page called "Recognizing Scams & Frauds" on its website to assist investors with locating materials about Investor Watches and Alerts. The Investor Town Hall Follow-up Report is also available at www.osc.gov.on.ca.

The way we work

Support and promote a more flexible, efficient and accountable organization

The OSC is responsible for administering and enforcing the laws that regulate Ontario's capital markets, and for providing protection to investors as set out in the *Securities Act* and *Commodity Futures Act*. A principle within the Acts states that effective and responsive securities regulation requires timely, open and efficient administration and enforcement of the Acts by the Commission. With this principle as a foundation, we strive to be accountable for our actions and make the best use of our resources, including staff, technology and research.

Staff Turnover Rate



Legal and Accounting Expertise:

22% of staff are lawyers

16% are accountants

Working with stakeholders

The OSC's objective is to operate in an effective, efficient and transparent manner with all stakeholders – investors, public companies, investment dealers, self-regulatory organizations, exchanges and others. The OSC holds itself to the same standards it expects of its stakeholders by establishing operating policies and practices to which all Commissioners and employees must adhere. Commissioners and staff are required to maintain the highest standards of conduct and personal integrity, deal openly and fairly with stakeholders, and follow all laws and regulations. Each year, every Commissioner and employee is required to certify their compliance with the OSC's Code of Conduct and By-law No. 2. They must also identify and disclose any conflicts or perceived conflicts on an ongoing basis.

Full and timely disclosure

In addition, the OSC endeavours to provide full and timely disclosure of OSC activities and operating results in a manner consistent with best practices in the private and public sectors. For example, the statement of management's responsibility for the financial statements in this annual report was updated to address the requirements of Multilateral Instrument 52-109 *Certification of Disclosure In Issuers' Annual and Interim Filings*. This statement is now signed by the Chair and CEO and the Director of Corporate Services, and speaks to the adequacy of the design of the OSC's internal controls over financial reporting.

Cost-benefit analysis

The OSC must weigh the cost of compliance, and other potential impacts of proposed regulation, against the anticipated benefits, as required under the *Securities Act* and the *Commodity Futures Act*. This helps ensure that regulatory interventions will achieve the desired benefit and that the cost is proportionate to the benefit. The Economic Analysis, Strategy and Project Planning Branch supports and conducts cost-benefit analyses of project and policy initiatives to assess and quantify the potential impact of regulatory alternatives. In 2006-07, the OSC completed major cost-benefit analyses on National Instrument 23-102 *Use of Client Brokerage Commissions as Payment for Order Execution Services or Research,* and amendments to proposed Form 51-102F6 *Statement of Executive Compensation*. Both analyses are available on the OSC website (www.osc.gov.on.ca).

Our intellectual capital

The OSC's greatest asset is its employees. Attracting the right staff with the right experience, skills and attitudes is an essential factor in helping the OSC meet the challenges of regulating Ontario's capital markets. OSC staff have a wealth of knowledge and expertise and come from a variety of specialized backgrounds, including securities law and litigation. Many others hold professional designations or similar qualifications in areas such as accounting, economics, geology, financial analysis and forensic investigation.

Each quarter, management reports to the Board on staffing levels and turnover. OSC policies for attracting and retaining staff are also reviewed as part of its ongoing internal audit procedures, which are monitored by the Commission's Audit and Finance Committee.

Public salary disclosure

In 2006-07, the Board expanded the mandate of its Compensation Committee to include human resources matters. The Human Resources and Compensation Committee assists the Board in fulfilling its governance and regulatory responsibilities with respect to executive compensation policies, executive pension plans, human resources policies and procedures, and ethical reporting policies and procedures. Furthermore, in accordance with provincial public salary disclosure requirements, the compensation of all OSC employees earning $100,000 or more in a calendar year is disclosed annually on the Ontario government's Ministry of Finance website (www.fin.gov.on.ca).

Human resources will be an important focus in 2007-08, as the OSC continues to develop its HR strategic plan to help fulfil its mandate and achieve the goals set out in the Commission's five-year strategic plan. The HR strategic plan will address initiatives for succession planning, training, leadership development and compensation policies.

Enhancing technology

To improve the efficiency of its operations, the OSC is committed to staying current with technological advancements and using new tools effectively. These tools allow staff to communicate more efficiently with stakeholders, help streamline business practices, enhance co-operation among Branches and, where appropriate, support keeping operations in line with international best practices.

The OSC leverages technology to continually improve the efficiency and effectiveness of its operations in a cost-effective way. In 2006-07, one objective was to acquire and implement improved technology to assist the Enforcement Branch with

How We Handle Inquiries

Inquiries and complaints are received by the Inquiries & Contact Centre. Most are handled by inquiries staff; however, complex inquiries may require the input of other OSC Branches or executives. This diagram illustrates the potential process for responding to such an inquiry.

Complex inquiry
Received by inquiries staff
Reviewed by panel of legal counsel and senior inquiries officers
Contact Centre researches, consults and coordinates inquiry with one or more OSC Branches (individually or collectively)
Examples of Branches that have reviewed inquiries in 2006-07:
• Capital Markets
• Investment Funds
• Enforcement
• Corporate Finance
• General Counsel
If necessary, the inquiry may be reviewed by the Chair, a Vice-Chair, or Executive Director
Inquiries staff relay final response to individual

WWW For more details on inquiries and complaints, please see tables on page 19.

The OSC's investor communications staff visited **41** Ontario communities through seminars and trade shows in 2006-07

The Inquiries & Contact Centre telephone service quality score was **80%** of the target in 2006-07

document control and analysis in both paper and electronic formats. The initiative is well underway and will be implemented in the 2007-08 fiscal year. Moreover, the OSC also developed workflow tools to improve the efficiency and consistency of its day-to-day operations, and help share acquired knowledge.

Engaging our audiences

OSC stakeholders are a diverse group and have differing expectations. To better understand their concerns, OSC staff consult with the industry and the public as certain rules and policies are developed. Stakeholders and the public have the opportunity to comment on proposed rules and policies, and regulators consider these comments when preparing final rules or assessing potential requirements for the market. All comments are published on the OSC website (www.osc.gov.on.ca).

The OSC has 13 advisory committees to consult with market participants and others on key securities regulation issues, such as continuous disclosure, fund governance, investor protection, registration and small business. These committees discuss a broad range of matters relating to regulatory initiatives to improve the OSC's understanding of specific policy effects on market participants, and the concerns and issues faced by these groups.

Feedback from stakeholders

Obtaining feedback from stakeholders on the quality of the OSC's work is crucial to improving the effectiveness of our operations. In 2005-06, the OSC completed its biennial Stakeholder Satisfaction Study assessing its quality of service, and will conduct another survey in fiscal 2007-08. Although the results were above average in most categories, the 2005-06 survey identified the Inquiries & Contact Centre as an area with lower-than-expected quality scores. The OSC conducted focus groups of reporting issuers, registrants, retail investors and Contact Centre employees to further understand these results. We will continue to seek feedback from stakeholders about the service provided by the Contact Centre and work to improve our performance against internal service quality targets in 2007-08.

The way we work with stakeholders and internally is of paramount importance to fulfilling the Commission's mandate. We achieve this goal by striving to meet the expectations of stakeholders and ensuring the OSC's operations are accountable, flexible and efficient in regulating the capital markets.

WWW The objectives and membership of each of the OSC's consultative committees are available on www.osc.gov.on.ca.

Looking ahead

- We will develop more expertise and rigour in the conduct of cost-benefit analyses to enhance the development of cost-effective regulation without compromising investor protection.
- We will update the OSC's information technology strategic plan, to address the technology needs of the Commission and its stakeholders.
- We will conduct the fifth wave of the OSC's biennial stakeholder satisfaction research in 2007-08.

Message from the Executive Director

The OSC made considerable progress in enhancing the efficiency and effectiveness of its operations in fiscal 2006-07. As a regulatory body, the OSC strives to be flexible and accountable in its operations to meet the needs of stakeholders.

We have made a commitment to operational excellence to the investors and market participants in Ontario. In this regard, the OSC must demonstrate financial accountability and efficiency, maintain superior internal controls, communicate effectively with stakeholders and support a positive and ethical workplace. Furthermore, being a responsive regulator requires an ongoing effort to make sure our resources, including our people, are deployed as effectively as possible.

The achievement of operational excellence also requires the professionalism of our staff. In my first year as Executive Director and Chief Administrative Officer, I witnessed the tremendous contributions made by staff in all aspects of the organization. These achievements stem from a collective effort to fulfil the Commission's mandate.

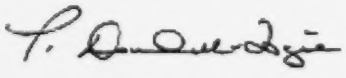
This collective effort produced impressive results. OSC staff worked effectively together and with other regulators and agencies, particularly the Canadian Securities Administrators (CSA) and self-regulatory organizations (SROs). This annual report highlights many of the milestones accomplished with the co-operation of the OSC, CSA and SROs.

The continuing development of the OSC's organizational structure is another essential element in making progress toward our goals. In 2006-07, two new Branches were created (see chart on page 25). The Office of Domestic & International Affairs co-ordinates our relationships with governments and other regulators. The Economic Analysis, Strategy & Project Planning Branch is responsible for strategic and business planning. In 2007, the Commission also plans to divide the Capital Markets Branch into two new branches: one consisting of Market Regulation and the second consisting of Registrations and Compliance. With these changes, the OSC is in a position to better respond to the many challenges of regulating the capital markets.

The needs of our stakeholders constantly evolve. The dynamism of the marketplace always creates new challenges for regulators. We have taken significant steps forward in providing active and responsive regulation of Ontario's capital markets, but there is more work to do in the year ahead.

I want to express my gratitude to our staff for their hard work and dedication. I look forward to working with Chair David Wilson, Vice-Chairs Larry Ritchie and Jim Turner, the executive management team and staff to face tomorrow's challenges.

Yours truly,



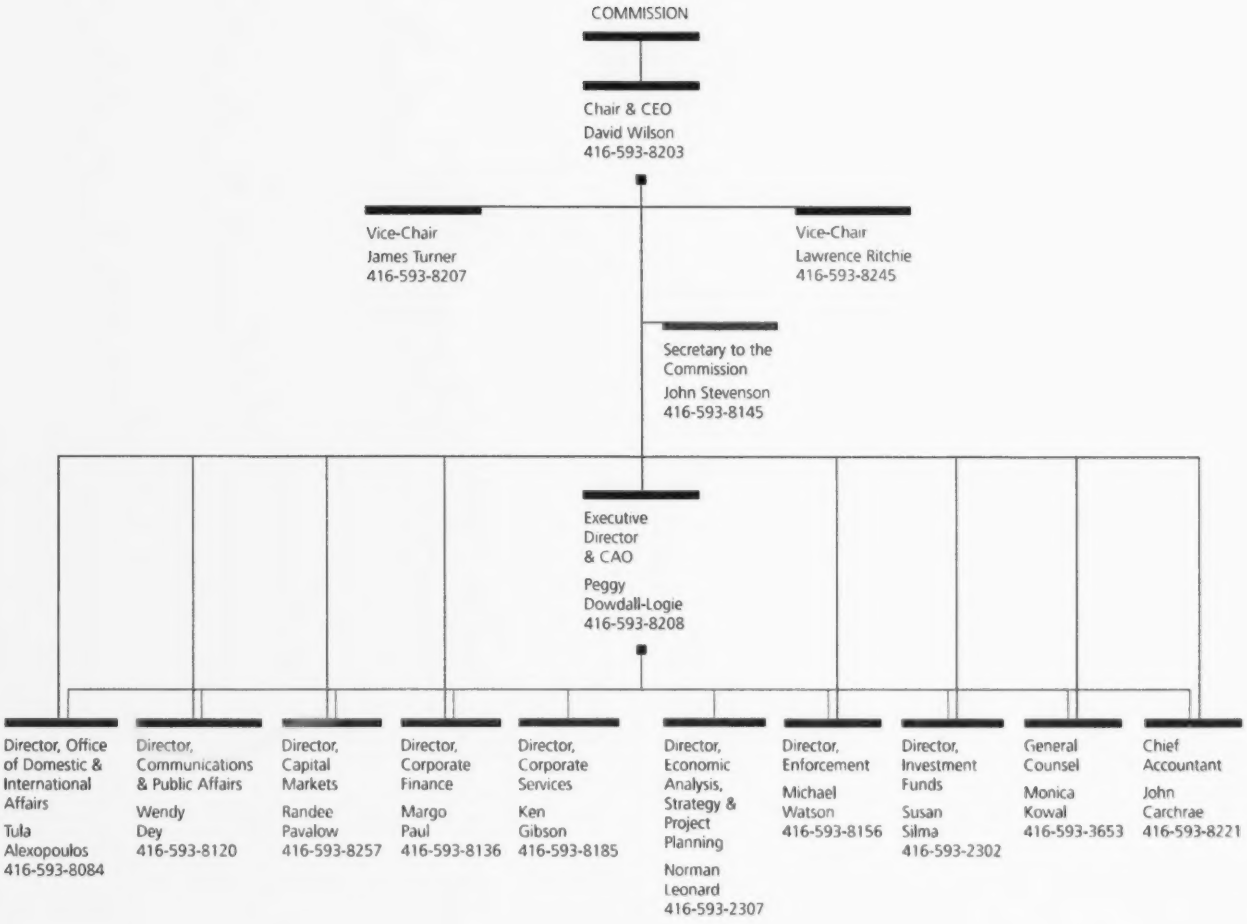
Peggy Dowdall-Logie

Executive Director and Chief Administrative Officer,
Ontario Securities Commission

"The OSC must demonstrate financial accountability and efficiency, maintain superior internal controls, communicate effectively with stakeholders and support a positive and ethical workplace."

Executive Director Peggy Dowdall-Logie

Organizational Chart



— Responsibilities and accountabilities with respect to the reporting line to the Chair include policy decisions, policy development, enforcement case assessment, activation and execution, and strategic direction.

— Responsibilities and accountabilities with respect to the reporting line to the Executive Director include policy implementation, enforcement case assessment, activation and execution, and all operational matters.

This organizational chart is available at www.osc.gov.on.ca.

Executive Management Team

Randee Pavalow
Director,
Capital Markets

Capital Markets

The Capital Markets Branch administers the regulatory framework for intermediaries, markets and self-regulatory organizations (SROs). The Branch's Registrant Regulation team administers requirements for trading or advising in Ontario. Compliance staff review fund managers, advisers and other market participants to ensure compliance with securities laws. Market Regulation staff oversee exchanges, other markets, clearing agencies and SROs.

Margo Paul
Director,
Corporate Finance

Corporate Finance

The Corporate Finance Branch administers the regulation of public companies and leads issuer-related policy initiatives. Staff oversee public offerings of securities through a review of prospectuses, and the ongoing dissemination of information by reporting issuers through a review of continuous disclosure documents. Staff also monitor compliance with securities laws in takeover bids and mergers and acquisitions.

Susan Silma
Director,
Investment Funds

Investment Funds

The Investment Funds Branch administers the regulation of investment funds, including mutual funds, exchange-traded funds, labour-sponsored funds, structured products and scholarship plans. The Branch reviews disclosure requirements to assess compliance and identify emerging policy issues. Staff determine whether to grant exemptions from the rules, and develop new rules and policies to adapt to the evolving investment fund industry.

Michael Watson
Director, Enforcement

Enforcement

The Enforcement Branch is responsible for upholding Ontario securities laws through fair and effective enforcement. Surveillance and Case Assessment Teams gather and evaluate information and refer appropriate cases to Investigations. Enforcement investigations are conducted with legal advice from Litigation. Litigation analyses the evidence, and if appropriate, initiates and conducts proceedings.

Wendy Dey
Director,
Communications
& Public Affairs

Communications & Public Affairs

The Communications & Public Affairs Branch provides strategic communications advice and counsel to the Chair's Office and Commission Branches, and ensures that all OSC stakeholders are kept well informed of Commission activities and policies. Branch responsibilities also include management of media relations and issues, executive speeches, investor communications, public inquiries and complaints, publications, major events and the OSC website.

Monica Kowal
General Counsel

General Counsel's Office

The General Counsel's Office (GCO) is an in-house legal, policy and risk management resource, providing senior legal and strategic advice to the Executive, Commissioners and OSC staff. The GCO has a particular focus on legislative and regulatory reform, and the legal authority and accountability of the Commission.

Office of the Chief Accountant

The Office of the Chief Accountant advises the Chair, the Commission, staff and market participants on financial reporting, auditing and related policy issues. The Office also oversees the Commission's relationships with the accounting profession, national and international accounting and auditing standards-setting bodies and the Canadian Public Accountability Board.

John Carchrae
Chief Accountant

Corporate Services

The Corporate Services Branch builds and maintains the core internal systems and infrastructure necessary for OSC staff to work effectively and efficiently. The Branch's areas of responsibility include human resources, information technology, finance and accounting, preparation of Board reports, knowledge management, records, the Commission library, and office and administrative services.

Ken Gibson
Director,
Corporate Services

Office of the Secretary

Reporting directly to the Chair, the Office of the Secretary to the Commission is responsible for ensuring the fair, impartial and efficient operation of the Commission's administrative proceedings, reviews and appeals; providing corporate secretarial support to the Commission's Board; and administering the Commission's policy agenda and request for comments procedures.

John Stevenson
Secretary

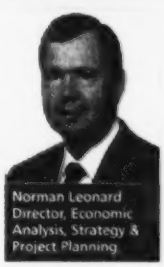
Office of Domestic & International Affairs

The Office of Domestic & International Affairs (ODIA) supports the Commission and executive staff in dealing with governments and regulators, both in Canada and abroad. The ODIA develops and strengthens relationships with governments and other regulators, and provides strategic advice, regulatory coordination and policy support for select regulatory reform initiatives.

Tula Alexopoulos
Director, Domestic &
International Affairs

Economic Analysis, Strategy & Project Planning

The Economic Analysis, Strategy and Project Planning Branch is responsible for ensuring alignment of initiatives and business planning objectives with the strategic goals of the Commission. The Branch encompasses the functions of the Office of the Chief Economist, Ontario Policy and Project Office, CSA Systems Project Office and Business and Strategic Planning Office.



Norman Leonard
Director, Economic
Analysis, Strategy &
Project Planning

Read the OSC's Statement of Priorities for fiscal 2007-08 for details of key initiatives. The Statement of Priorities is available at www.osc.gov.on.ca.

Contact Details

OSC Website — www.osc.gov.on.ca

The OSC website features content for consumers, dealers and advisers, public companies and other market participants. Specific sections have been created about the Commission's governance structure, policy and regulation, enforcement, market regulation, investment funds and international affairs. You can also find news releases, speeches and select frequently used forms. This annual report is posted online in the 'About the OSC' section of the homepage.

OSC Bulletin — www.oscbulletin.carswell.com

The OSC Bulletin is the official record of OSC activity, including orders and rulings, reasons for decision, news releases and other public notices, requests for comment, notice of approvals of rules, and notice of proposed and final legislative amendments. The Bulletin is published weekly on the OSC website and also in print format by Thomson Carswell on behalf of the OSC.

Thomson Carswell publishes a paper copy of the Bulletin and maintains an archive of it on an Internet subscription service entitled *securities.pro*. For subscription information, contact Carswell Customer Relations at 416-609-3800, toll-free (in Canada and the U.S.) at 1-800-387-5164, or by e-mail at: carswell.customerrelations@thomson.com.

Investor Education Fund — www.investorED.ca

The Investor Education Fund offers trustworthy and unbiased education tools and resources for investors and others. It does so through direct outreach to the general public via www.investorED.ca, and by providing students and teachers with tools to improve their financial literacy through the "Taking Stock In Your Future" teacher program. It also works in the communities by providing funding support to not-for-profit and community organizations to fund financial literacy projects. The Investor Education Fund was established by the OSC and is funded through OSC enforcement settlements and orders. The Fund operates separately from the OSC with its own Board of Directors.

"Protecting investors is really 'job one' for securities regulators around the world. The continued health of the capital markets depends upon people being willing to put up risk capital for investment."

OSC Chair David Wilson

The OSC Inquiries & Contact Centre responds to e-mail or telephone inquiries, and handles initial reviews of written complaints against registrants and public companies.

The Contact Centre operates from 8:30 a.m. to 5:00 p.m., Monday to Friday, and can be reached by:

tel: (416) 593-8314 (Toronto area)
1-877-785-1555 (toll-free)

fax: (416) 593-8122

e-mail: inquiries@osc.gov.on.ca

mail: Ontario Securities Commission
20 Queen Street West, Suite 1903
Toronto ON, M5H 3S8

You can also file a complaint by using the online form in the "For the Consumer" section of www.osc.gov.on.ca.

To send tips on potential violations of Ontario securities laws, use our Tips form: www.osc.gov.on.ca/Tips/tips_form.jsp

Management's Discussion and Analysis
Financial Statements

Management's Discussion and Analysis

(Dated May 9, 2007)

The financial statements present the results of the OSC for the year ended March 31, 2007, with 2006 comparatives and accompanying notes. Unless otherwise specified, references to years, for example 2007, refer to the fiscal years of the OSC ended March 31. The following comments analyze the factors which affected the OSC's operations during 2007, as well as the factors that reasonably may be expected to affect future operations and financial results.

This document should be read in conjunction with the financial statements. Certain statements included in this annual report are forward looking and are subject to important risks and uncertainties. The results or events forecast in these statements may differ materially from actual results or events. Factors which could cause results or events to differ from current expectations are described in the risks and uncertainties section. Readers should note that some assumptions, although reasonable at the time of publication, are not guarantees of future performance.

Overview

The OSC is a corporation without share capital. The OSC functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities marketplace in Ontario. As a Crown corporation, the OSC is exempt from income taxes. The OSC's operations are funded through fees paid by securities market participants. Employee compensation and occupancy costs account for 81.7% (2006 – 81.1%) of OSC expenses.

Internal Control over Financial Reporting

The OSC believes that its own governance practices should be robust, transparent and where applicable, conform to the best practices advocated for public companies. Recognizing the importance of high quality, reliable and transparent financial reporting, the Audit and Finance Committee and management decided to implement the reporting issuer provisions of Multilateral Instrument 52-109 with respect to internal control over financial reporting (ICFR). We believe this is an opportunity for the OSC to show leadership and help develop best practices in disclosure.

This led to a process of research and planning, identification of risk areas, review and documentation of controls and identification of areas for improvement. This process involved OSC staff and management, with the assistance of external resources.

The statement of Management's Responsibility for the financial statements included in last year's Annual Report has been revised and expanded to include the appropriate certification. In addition, we will be implementing certain improvements in internal control where we already have compensating controls, identified in our review:

- our design did not include a formal fraud risk assessment. The OSC believes it has a strong overall system of internal control and maintains an internal audit function using an external provider, which assesses and addresses the overall risk factors faced by the OSC, and reports to the Audit and Finance Committee, but it has not focussed specifically on the risk of fraud. This will be addressed for the coming year;
- the OSC strongly supports the value that a "whistleblower" procedure provides as part of an internal control environment. We have delayed implementing a whistleblower procedure at the OSC in light of the anticipated coming into force of the new *Public Service of Ontario Act, 2006* and the desire for our procedures to align with the provisions of this initiative. Among other things, the *Public Service of Ontario Act, 2006* establishes a process which enables public servants, including OSC employees, to disclose wrongdoing in the Ontario public service and be protected from reprisals;
- management is reassigning duties among staff to achieve the appropriate segregation of duties in the OSC's finance department and its financial information systems areas; and
- management is implementing changes in access and reassignment of duties to attain the desired level of control over access to certain systems, records and assets.

OSC Fees

The OSC fee schedule is designed to generate fees that reflect the OSC's cost of providing services to market participants. Starting April 1, 2003, the OSC has set fee levels every three years, most recently at April 1, 2006. Fee levels are adjusted to offset accumulated deficits or surpluses. The forecasted surplus at March 31, 2006, was used to establish a reduced level of participation fees for the new fee schedule that became effective April 1, 2006. The fee schedule requires the payment of "activity fees" and "participation fees".

Activity fees are designed to represent the direct cost of OSC staff resources used in undertaking certain activities requested of staff by market participants. Activity fees are charged for a limited number of activities and are flat rates based on the average cost to the OSC of providing the service.

Participation fees are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities and are intended to serve as a proxy for the market participant's use of the Ontario capital markets. Participation fee levels are set using a tiered structure. Fees for issuers are based on capital; fees for registrants are based on their revenues. As a market participant grows, it moves through various tiers which have increasingly higher fees. The breadth of the tiers was designed to minimize movement through tiers due to market fluctuations and thereby reduce the volatility in OSC revenues due to positive or negative market changes.

As we have gained more experience with the fee structure we have learned that it is more closely correlated to market activity levels than anticipated. In 2007, participation fees grew along with the financial markets, and were $9.0 million higher than budgeted. This was the key contributor to the OSC generating a $1.8 million surplus rather than a planned deficit of $12.2 million. In the coming year we plan to re-examine the fee structure to determine what changes need to be made to achieve our goals of stable OSC revenues, fairness to market participants and matching our revenues and expenses.

The *Securities Act* states that, when ordered to do so by the responsible Minister, the OSC shall pay into the Consolidated Revenue Fund such of its surplus funds as determined by the Minister. The Minister has confirmed that the OSC is not required to remit its surpluses subject to appropriate terms and conditions to be agreed with the Ministry. As noted above, the OSC has committed to re-evaluate its fee levels every three years and to take into account any accumulated surplus in setting fees for the ensuing period. Any deficits will be funded either through surpluses previously generated or that may be generated in the future, or from the OSC's reserve.

Analysis of Operating Results

We actively manage our expenses by:

- Preparing an annual budget approved by the Board;
- Continually assessing and improving the efficiency of our processes;
- Reporting actual versus budget performance and updated full-year forecasts to the Board every quarter; and
- Requiring Board approval of significant unbudgeted expenses or re-allocations.

2007 Actual versus 2007 Budget

(Thousands)	2007 Actual	2007 Budget
Revenues	$ 71,067	$ 60,016
Expenses	69,304	72,168
Excess of Revenue over Expenses	$ 1,763	$ (12,152)

Our budget was for a deficit of revenue over expenses of $12.2 million in 2007. Our actual excess was $1.8 million. Revenues were $11.0 million higher than budget primarily due to surplus participation fees ($9.0 million) as previously discussed, late filing fees ($0.8 million) and investment income ($0.9 million). Expenses reflected lower than expected spending on employee compensation, occupancy and training ($1.3 million) and professional services ($0.7 million).

Revenues

(Thousands)	% of Total Fees	2007 Actual	2007 Budget	Variance	% Variance
Participation fees	80.9	$ 54,814	$ 45,823	$ 8,991	19.6
Activity fees	15.8	10,732	10,486	246	2.3
Late fees	3.3	2,238	1,400	838	59.9
Total fees	100.0	$ 67,784	$ 57,709	$ 10,075	17.5
Investment income		3,140	2,207	933	42.3
Miscellaneous		143	100	43	43.0
Total revenues		$ 71,067	$ 60,016	$ 11,051	18.4

Participation fees are the largest revenue source, accounting for 80.9% of fees. Actual fees earned exceeded budget by $9.0 million. Issuer participation fees were $4.7 million above plan. As noted above, buoyant capital markets resulted in higher than expected growth in the market capitalization of issuers which generated higher revenues. Registrant participation fees were $4.3 million above plan. Similarly, the increase was due to growth in registrant firm revenues which generated higher participation fees.

Figure 1 shows the sources of OSC fees:

Figure 1 – OSC Fees by Type

Activity fees accounted for 15.8% of total fees. Activity fee volumes are driven by market demand for our services. Issuer activity fees were $444K over plan due to higher than expected fees from filings of preliminary and/or final prospectuses, private placements and takeover bids. These increases were partially offset by lower than forecast volumes of applications for relief. Registrant activity fees were $198K under plan mainly due to lower investment fund prospectus activity.

Late fees accounted for 3.3% of fees and were greater than planned by $838K, or 60%. The variance occurred mostly due to higher than expected late filings of insider trading reports ($520K) and interim and annual statements ($241K).

Investment income generated by deposits and other investments was $933K or 42% above plan. The positive variance occurred due to higher interest rates combined with higher than expected cash balances. Interest on cash balances generated $1.9 million (2006 – $926K). These balances earn interest at a rate of 1.75% below the prime rate or 0.25% below bankers' acceptances. Investments in short and mid term instruments with the Ontario Financing Authority generated $1.3 million (2006 – $946K). The average rate of return on these instruments was 3.92% (2006 – 2.96%).

Miscellaneous revenues were $143K versus a budget of $100K.

Expenses

(Thousands)	2007 Actual	2007 Budget	% Variance	2006 Actual	2005 Actual	2004 Actual
Salaries and benefits	$ 51,508	$ 52,066	1.1	$ 48,871	$ 44,287	$ 40,147
Administrative	5,143	5,936	13.4	5,263	5,464	4,349
Occupancy	5,104	5,533	7.8	4,570	4,037	3,973
Professional services	4,827	5,557	13.1	3,827	3,416	2,170
Amortization	1,771	1,757	-0.8	2,329	3,267	3,233
Other	951	1,319	27.9	963	1,158	1,099
Total expenses	$ 69,304	$ 72,168	4.0	$ 65,823	$ 61,629	$ 54,971

Salaries and benefits spending was $558K or 1.1% under budget. Savings were due to vacancies and delays in hiring as well as a decision to outsource part of the System for Electronic Disclosure by Insiders (SEDI) modernization project rather than using internal resources.

Administrative costs were $793K or 13.4% under budget. Commission expenses were $235K less than budgeted despite an increase in the number of hearing days. Costs were lower because there were more hearings held using fewer than three Commissioners. There were also vacant Commissioner positions during the year. Training was lower by 29.8% or $307K as planned activities were deferred due to other workload priorities.

Occupancy costs were $429K or 7.8% lower than plan due to lower maintenance and operating costs and delays in obtaining leased space for the SEDI project team.

Professional services costs were $730K or 13.1% under budget. Planned audits under our internal audit program were postponed as efforts were focused on reviewing our risks and development of an audit plan. For various other projects, including the registration reform project and for industry specific continuous disclosure reviews, internal resources were used. Contingencies for certain CSA initiatives and for outside expert legal opinions were also not fully used. Recruitment costs were significantly over budget due to greater use of external firms to address strong market demand for certain positions and more senior recruitment during the year. Spending on the SEDI modernization project was over budget for professional services, due to the decision to outsource the project management of this initiative rather than using internal resources, as discussed earlier. It should be noted that, while the OSC led the initial work to scope out the requirements of the new SEDI system, the CSA decided to defer a decision to proceed with the project pending completion of a CSA information technology strategic plan.

Amortization costs were on budget.

Other expenses were lower by 27.9% or $368K, mostly due to the deferral or postponement of some IOSCO and CSA related travel. Some planned travel was replaced with conference calls, and some meetings, projected to be held out of town, were held in Toronto.

2007 Actual versus 2006 Actual

(Thousands)	2007 Actual	2006 Actual
Revenues	$ 71,067	$ 83,050
Expenses	69,304	65,823
Excess of Revenue over Expenses	$ 1,763	$ 17,227

Excess of Revenue over Expenses

The excess of revenue over expenses for 2007 was $1.8 million (2006 – $17.2 million) down $15.4 million from 2006. Revenues dropped as participation fees were $10.9 million lower and activity fees fell by $1.4 million. These declines reflected the impact of our new fee schedule, however, the declines were less than planned due to strong capital markets, as discussed above. Higher investment income was offset by lower miscellaneous revenues. The overall increase in expenses related to higher staff-related costs for salaries and benefits, occupancy and recruitment. Revenues and expenses are discussed in more detail below.

Revenues

(Thousands)	% of Total Fees	2007 Actual	2006 Actual	Change	% Change
Participation fees	80.9	$ 54,814	$ 65,759	$ (10,945)	–16.6
Activity fees	15.8	10,732	12,127	(1,395)	–11.5
Late fees	3.3	2,238	2,092	146	7.0
Total fees	100.0	$ 67,784	$ 79,978	$ (12,194)	–15.2
Investment income		3,140	1,872	1,268	67.7
Miscellaneous		143	1,200	(1,057)	–88.1
Total revenues		$ 71,067	$ 83,050	$ (11,983)	–14.4

Revenues for the year were $71.1 million, down $12.0 million from 2006. The variance is related to the following:

Participation fees for issuers were $14.0 million lower than last year. About 80% of this decline reflected lower participation fee rates in the new fee schedule. The balance is due to the remaining impact of National Instrument 51-102 *Continuous Disclosure Obligations* that accelerated the filing deadlines. The 2005 fiscal year was the first full year for this rule and many issuers missed the filing deadline, which resulted in the additional fees being recorded in the 2006 fiscal year. Registrant participation fees were higher by $3.0 million due to overall market growth. Changes to the fee schedule were revenue neutral because the lowest three fee tiers (85% of registrants) were reduced while the higher tiers had slight fee increases.

Activity fees were lower by $1.4 million mainly because of the impact of the new fee schedule.

Late fees were $146K or 7.0% higher as the net revenue from late SEDI filings increased. We issued 8.5% fewer SEDI late fee invoices resulting in a $124K revenue reduction. However, we granted 58.9% fewer credits, which resulted in the overall net revenue increase.

Miscellaneous revenue was lower mainly due to the $964K returned to the OSC by CDS in 2006, representing the return of the contribution the OSC made to CDS in 2005 for SEDI improvements.

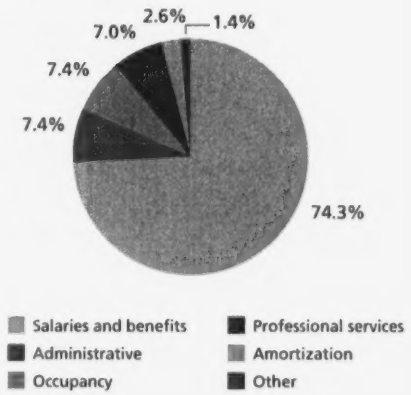
Investment income was higher related to the higher cash balances and interest rates. The average rate of return was 3.92% which was 96 basis points higher than in 2006.

Expenses

(Thousands)	% of Total Expenses	2007	2006	% Change	2005	2004
Salaries and benefits	74.3	$ 51,508	$ 48,871	5.4	$ 44,287	$ 40,147
Administrative	7.4	5,143	5,263	-2.3	5,464	4,349
Occupancy	7.4	5,104	4,570	11.7	4,037	3,973
Professional services	7.0	4,827	3,827	26.1	3,416	2,170
Amortization	2.6	1,771	2,329	-24.0	3,267	3,233
Other	1.4	951	963	-1.2	1,158	1,099
Total expenses	100.0	$ 69,304	$ 65,823	5.3	$ 61,629	$ 54,971

Total expenses for 2007 (Figure 2) increased 5.3% to $69.3 million (2006 – $65.8 million).

Figure 2 – OSC Expenses by Type



The key contributors to the expenditure increase were as follows:

Salaries and Benefits costs increased by 5.4% to $51.5 million (2006 – $48.9 million) and accounted for 74.3% of total OSC expenses. The addition of 29 staff was a significant contributor to this increase. However, for 2007 the impact was reduced because the hirings occurred throughout the year. Also contributing to the variance was the impact of the salary increases put in place at the beginning of the fiscal year totalling approximately $1.5 million. The full year cost impact of staff hired during the year in 2006 also contributed to the increase. As a result of operating in a competitive environment for professional talent, our compensation system includes performance-based incentives. These incentives represented 9.4% of total salaries and benefits costs (2006 – 8.8%).

Administrative costs accounted for 7.4% (2006 – 8.0%) of the OSC's total expenses. Expenditures on administrative costs decreased by 2.3% to $5.1 million (2006 – $5.3 million). Spending for training rose by 31.4% to $724K (2006 – $551K). Commission related expenses fell 5.2% to $1.0 million (2006 –

$1.1 million). The decrease occurred despite higher than expected meeting and hearings activity. The number of matters before the Commission increased 26% to 43 (2006 – 34). The number of hearing days almost doubled to 131 (2006 – 67). However, more hearings involved fewer than three Commissioners which resulted in reduced cost. There were also vacant Commissioner positions during the year. Communications costs were 3.6% lower at $1.3 million (2006 – $1.4 million) due to reduced printing of court documents for Enforcement matters and lower translation costs.

Occupancy costs accounted for 7.4% (2006 – 6.9%) of the OSC's total expenses. Expenditures on occupancy increased $534K or 11.7% to $5.1 million. The increase reflected the impact of higher lease costs and the acquisition of additional space to accommodate staff growth.

Professional Services costs increased 26.1% from $3.8 million to $4.8 million and accounted for 7.0% (2006 – 5.8%) of the OSC's total expenses. We contract third party professional services when it is not cost-effective to perform the work ourselves, or when we do not have the skills.

($ millions)	2007	2006
Actual costs	4.8	4.5
Less recoveries of costs	0.0	0.7
Net Professional Services	4.8	3.8

Spending on enforcement-related matters, including the use of external legal and forensic accounting resources and other specialized expertise, was $1.7 million lower than in 2006. The number of cases requiring external resources in 2007 was lower than in 2006 but is expected to return to higher levels in 2008. Other professional services spending was up by $1.4 million mainly due to the SEDI modernization project, the stakeholder survey completed in May 2006 and higher recruitment costs. External cost recoveries from enforcement actions were $649K lower.

The OSC is a member of the CSA, which is a forum of provincial securities regulators. Total CSA spending on shared projects was $2.2 million in 2007 (2006 – $1.9 million), of which the OSC contributed $895K (2006 – $787K). Professional services include costs to operate CSA offices (allocated on a formula basis) as well as our portion of professional services costs incurred on joint CSA projects.

A central secretariat co-ordinates all CSA projects, including the development of harmonized securities policies and rules. A CSA systems office manages the CSA's business relationships with third party technology providers. In 2007, the OSC contributed $172K (2006 – $193K) to the cost of the CSA Secretariat and $230K (2006 – $211K) to the cost of the systems office.

Key initiatives funded through this process included:

Investor education initiatives	$113K
Alternative Trading Systems Consolidator	$ 67K
National cease trade order system	$ 44K
Joint Forum initiatives	$ 39K

Amortization costs accounted for about 2.6% (2006 – 3.5%) of the OSC's total expenses. Amortization expenses decreased to $1.8 million (2006 – $2.3 million) due to lower amounts for leasehold improvements and furniture and fixtures.

Other expenses, which reflect travel and related expenses, declined by $12K or 1.2% to $951K (2006 – $963K) and accounted for 1.4% (2006 – 1.5%) of the OSC's total expenses. Less travel due to the deferral or postponement of some international work with IOSCO and CSA-related travel and some planned travel that was replaced with conference calls were the key sources of this decrease.

Liquidity and Financial Position

Liquidity

The OSC has sufficient liquidity to finance its operations and capital purchases. Our cash position increased by $2.9 million or 5.1% in 2007. Cash flows from operations were $3.7 million. Purchases of capital assets used $988K.

As at March 31, 2007, the OSC held $58.8 million (2006 – $55.9 million) in cash, had current assets of $61.3 million (2006 – $57.7 million) and current liabilities of $10.9 million (2006 – $10.1 million) for a current ratio of 5.6:1 (2006 – 5.7:1). Our general surplus increased by $1.8 million, reflecting our excess of revenues over expenses.

Revenues and Reserves

Revenue generation remains a source of risk for the OSC as all revenues are still correlated to market activity to some extent. As noted earlier, the degree to which the OSC's revenues vary along with market fluctuations is greater than was anticipated when the fee structure was developed. We will be studying the fee structure to develop steps to address this in 2008.

To manage this uncertainty, the OSC has a $20.0 million reserve as an operating contingency for revenue shortfalls or unexpected expenses. The OSC has an additional $12.0 million reserve that may only be used to offset costs incurred related to the proposed merger of the OSC with the Financial Services Commission of Ontario.

The rate of return on investments is low as the funds are invested in treasury bills. The prime investment consideration for the reserve is the protection of capital and the appropriate liquidity to meet unanticipated cash flow needs. The OSC records income generated by the reserve in general operations.

Accounts receivable

Accounts receivable increased 17% to $1.7 million (2006 – $1.5 million). Outstanding late fees, which accounted for 32.6% of accounts receivable, increased 7.7% to $561K (2006 – $521K). We also increased our allowance for doubtful accounts by $245K. Other key receivables are interest receivable $919K (2006 – $554K) and $103K from the Investor Education Fund (2006 – $128K).

Funds held pursuant to designated settlements and orders

In 2007, the OSC received $712K through designated settlements and orders arising from enforcement proceedings. Funds that are received as a result of settlements or orders may, under the terms of the settlement or order, be designated to or for the benefit of third parties. Funds that are not designated at the time that settlements are approved or orders are made are paid to Consolidated Revenue Fund of the Government of Ontario.

The OSC currently holds $5.6 million (2006 – $4.7 million) pursuant to designated settlements and orders. Amendments to the *Securities Act* in December 2004 removed the requirement for Ministerial approval of allocations of designated settlement funds. The Minister retained the right to establish guidelines for the allocation of these funds. The OSC is subject to Ministerial approval to transfer to third parties $1.9 million of the designated settlement balances relating to the period prior to December 2004.

Funds in trust

As at March 31, 2007, the OSC has received $15.5 million from the operator of the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and SEDI, representing the accumulated surplus from the operations of SEDAR, NRD and SEDI from their inception. Interest earned on these funds to 2007 was $710K. These funds are held by the OSC in trust, in accordance with agreements amongst the OSC, the Alberta Securities Commission, the British Columbia Securities Commission, L'Autorité des marchés financiers and, in the case of the NRD, the IDA. These funds may be used only for the purposes set out in these agreements and listed in Note 4 of the financial statements.

Capital expenditures

Capital expenditures during 2007 included:

(Thousands)	2007	2006	% Change
Furniture and Equipment	$ 42	$ 372	-88.7
PC's, Laptops and other IT equipment	915	1,148	-20.3
Leaseholds and other capital items	31	919	-96.6
Total	$ 988	$ 2,439	-59.5

Capital assets decreased 19.6% to $3.2 million (2006 – $4.0 million). The significantly higher expenditures in 2006 on furniture and equipment and leaseholds and other capital items related to renovations to new and existing space. Capital purchases totalling $988K (2006 – $2.4 million) were made during 2007. More than 90% of the purchases were technology related ($915K), including equipment purchased for increased staff complement and replacement of computer equipment to ensure the currency of our technology base.

Liabilities

Accounts payable and accrued liabilities increased 8.2% to $10.7 million (2006 – $9.9 million). Key accrual increases included general payables ($382K) and bonuses ($530K), vacations ($79K) and payroll ($24K) which all reflect higher staffing levels. Our severance accrual declined by $191K.

The accrued pension liability of $1.4 million (2006 – $1.2 million) represents future obligations relating to supplementary pension plans for the current and former Chairs and Vice-Chairs. The unfunded supplemental pension plans had an accrued benefit obligation of $1.3 million (2006 – $1.2 million) at March 31, 2007. The OSC's related expense for the year was $249K (2006 – $170K) and is included in salaries and benefits.

Risks and Uncertainties

Operational and Infrastructure Risk

We are exposed to many types of operational risks including the risk of fraud by employees or others, unauthorized transactions by employees, and operational or human error. We also face the risk that computer or telecommunications systems could fail, despite our efforts to maintain these systems in good working order. Shortcomings or failures of our internal processes, employees or systems, including any of our financial, accounting or other data processing systems, could lead to financial loss and damage to our reputation. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our operations and the communities in which we do business.

The OSC has policies and processes to identify, manage and control operational risk. Key components of our operational risk approach include:

- A Board of Directors responsible for sound corporate governance.
- Independent third party internal auditors who, through periodic, risk-based audits, are responsible for verifying that significant risks are identified, assessing the appropriateness of our controls and recommending changes as required.
- Periodically, our internal auditors conduct a comprehensive review of our risk universe (most recently in fall 2006) which is used to target our internal audit plan.
- A strong internal control environment, the adequacy of the design of which was confirmed through the ICFR process discussed earlier.
- Our Economic Analysis, Strategy & Project Planning Branch works with our program areas to develop risk-based solutions for their operations.
- We mitigate risk to our assets through insurance where practical and appropriate.
- Regular reviews of our systems security measures to monitor our controls and identify potential vulnerabilities against external parties accessing our data.

We also monitor and manage operational risk through activities such as business continuity planning and risk-based approaches to compliance.

Business continuity

The OSC has a Business Continuity Plan to ensure the continuation of critical regulatory services should the OSC face a significant disruption to its operations. Detailed business continuity plans are in place for each priority business function. Each plan includes documented recovery procedures including manual workarounds and mitigation strategies. Offsite recovery services and facilities are in place and were successfully tested during 2007. We continually refine our plan to include strategies to recover and resume our operations for various disruption scenarios.

Risk-based compliance

In delivering on our mandate we take a risk-based approach for many of our disclosure review and compliance activities. Our Corporate Finance group continues to enhance its risk-based screening procedures so that a substantial proportion of its review population receives some form of meaningful assessment each year, while ensuring that resources are only invested into a full review when it is merited. The group completed 423 reviews or 30% of Ontario-based reporting issuers this year.

Our Investments Funds group recently initiated reviews of continuous disclosure filings made under National Instrument 81-106, *Investment Funds Continuous Disclosure*. As part of this process, staff is compiling a list of compliance issues, which vary depending on the nature of the fund reviewed, with a view to developing a risk-based process for these reviews.

Our Compliance team in the Capital Markets Branch uses a risk-based approach in selecting advisers, fund managers and limited market dealers for field reviews. The topics for targeted reviews are determined annually.

Enforcement also uses a risk-based approach to ensure cases that are brought forward are subject to consistent scrutiny, involve significant breaches of Ontario securities law, and give appropriate consideration to OSC priorities.

Reputational Risk

The OSC actively manages its reputational risk through our corporate governance practices, code of conduct (By-law 2) and risk management framework. In order to build and maintain the OSC's reputation, each year our Commissioners and all employees must provide written certification that they have conducted themselves in accordance with our Code of Conduct. The activities of our Communications Branch and our offices of the General Counsel, Corporate Secretary and Office of Domestic and International Affairs are key participants in managing our reputational risk.

People risk

As a knowledge-based entity our ability to attract and retain people is critical to our success. We track a range of measures (e.g., turnover and compensation surveys) to manage this risk. Turnover decreased to 28 staff or 7.0% from 44 staff or 11.6% in 2006. Knowledge management is a key focus and we continue to pursue initiatives to improve our ability to retain corporate memory and to ensure effective knowledge transfer.

National approaches to securities regulation

The implications of the ongoing national discussions on approaches to securities regulation in Canada are a source of uncertainty and could have a material impact on OSC operations.

Reliance on CDS

CDS operates a number of major systems on behalf of the CSA and the OSC. The NRD system was launched on March 31, 2004. The current operating agreement for the NRD expires March 2009. SEDI became fully operational in May 2003. The current operating agreement for SEDI runs until May 2010. The SEDAR system was launched in January 1997. The current operating agreement for SEDAR runs until May 2010.

CDS recovers its costs to operate these systems by charging user fees to filers. In 2007, 89% (2006 - 90%) of our fee revenue was collected through national systems: SEDAR (39%) and the NRD (50%). No material change is expected in the volume of fees collected through these systems. If CDS becomes unwilling or unable to operate one or all of these systems, the OSC and the CSA will need to ensure the continued operation of these systems as disruptions in processing our fees through these systems would materially affect our cash flows.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates because future events may differ significantly from management's expectations. The OSC uses various estimates to prepare the financial statements. Key areas where estimates were used included valuation of supplemental pension obligations and the useful life of capital assets.

Changes in Accounting Policies

Management is responsible for selecting the significant accounting policies and preparing the financial statements, including the accompanying notes, in accordance with Canadian GAAP. The significant accounting policies and their application have not changed. In 2007, no new accounting or reporting standards were introduced which would impact the Commission's statements.

2008 Outlook

Our draft 2007/2008 Statement of Priorities sets out our priorities and proposed initiatives for the upcoming year. The document is available at www.osc.gov.on.ca. The 2007/2008 budget will allow us to move toward achievement of the following goals:

1. Identify the important issues and deal with them in a timely way.
2. Deliver fair, vigorous and timely enforcement and compliance programs.
3. Champion investor protection, especially for retail investors.
4. Support and promote a more flexible, efficient and accountable organization.

Our 2008 budget projects a deficit of $7.2 million. We are able to operate at a deficit because surplus funds earned during prior years have been used to allow us to set lower fees than would have otherwise been possible.

(Thousands)	2007 Actual	2008 Budget	Year over Year Change +/-	
Revenues	$ 71,067	$ 75,189	$ 4,122	5.8%
Expenses	69,304	82,437	13,133	18.9%
Excess/(Deficiency) of Revenue over Expenses	$ 1,763	$ (7,248)	$ (9,011)	
Capital Expenditures	$ 988	$ 3,698	$ 2,710	274.3%

Revenues

The OSC remains committed to ensuring that fees paid by issuers and registrants reflect the projected costs to regulate each group. Our revised fee schedule became effective April 1, 2006. In setting the activity fees we reviewed each service activity and its related cost. The revised fee schedule affects market participants differently in order to better reflect the services they receive and the benefits they derive from participating in Ontario's capital markets.

In 2007, $71.1 million was earned in revenue. In 2008, participation fee revenues are forecast to increase by 6.8% from issuers and by 8.1% from registrants. As in 2007, these increases will result from market growth, rather than fee increases. The fees will remain at the levels set April 1, 2006. Total activity fee revenues are projected to increase by 1.8%. Late fees are forecast to rise by 7.2%. Investment income is forecast to fall by 12.1% or $381K due to expected lower cash balances.

Expenses

(Thousands)	2006 Actual	2007 Actual	2008 Budget
Staff	412	441	464
Expenses	$ 65,823	$ 69,304	$ 82,437

Salaries and benefits costs are projected to rise 16.5% to $60.0 million (2007 – $51.5 million) accounting for 63% of the total budget increase. This increase reflects a decision to increase approved staffing by 5.2% from 441 to 464. About 70% of the new staffing is in Enforcement. The rest of the cost increase is generated by annual performance-related changes to salaries of current staff, additional bonus requirements arising from staff growth and the annualized impact of various in-year staff changes and vacancies.

Administrative costs are expected to rise by 27% or $1.4 million. Staff training is projected to increase by $400K. Training was underspent against budget as planned activities, including a management development program, were deferred due to other workload priorities. Commissioners' costs are projected to rise by $276K as vacancies are filled and for additional planned training. Higher information technology maintenance ($274K) costs are due to various IT expenses such as software licenses, maintenance agreements, business continuity plan costs as well as new applications and related consulting. Communications is budgeted $377K higher, reflecting costs for investor communication initiatives and increases in online research and information services.

Occupancy costs are projected to rise 21% to $6.2 million (2007 – $5.1 million). This reflects inflation of operating costs on the existing space (base rent is fixed until September 2008), the proposed addition of approximately 20,000 square feet of additional space to accommodate growth, and transitional accommodations in the building until the new space is complete.

Amortization costs are expected to decline 13.6% to $1.5 million for 2008 (2007 – $1.8 million). Capital expenditures were low in 2007; once the proposed leasehold improvements are complete, amortization will increase accordingly in 2008/09.

Professional services costs are projected to rise 34.8% to $6.5 million for 2008 (2007 – $4.8 million). In Enforcement, there is a proposed increase of $1.5 million in professional services including $1.3 million in litigation-related costs for expert witnesses, etc. Our share of the costs for CSA shared projects is expected to rise by $294K.

Other expenses are forecast to increase 63.3% to $1.6 million (2007 – $951K). The key increases are $155K in travel for IOSCO purposes and $104K for CSA travel which will include a "road show" for the Registration Reform Project. There will also be increased travel in Enforcement and for compliance audits.

Capital is budgeted at $3.7 million, 274% higher than the $988K spent in 2007. More than 70% is budgeted for leasehold improvements ($1.6 million) and related furniture ($1.1 million). The remaining spending is planned for information technology-related capital expenditures ($1.0 million).

Surplus/Deficit

The table below reflects our original and current forecast for our operating surplus/deficit position at the end of each year. The original forecast prepared as part of the fee-setting process projected no surplus at the end of the three year cycle. Fees were set to generate a cumulative deficit equal to the $39.5 million forecasted surplus as at March 31, 2006. However, the actual surplus as at March 31, 2006, was $50.0 million. Also, due to the strong performance of our capital markets we are now projecting a operating deficit of only $15.5 million for the 2007 to 2009 period. This will result in a $34.5 million surplus as at March 31, 2009.

3 Year Operating Surplus/(Deficit) Forecast

(Thousands)	2006/2007	2007/2008	2008/2009	3-Year Total
Original Forecast Operating Deficit	$ (12,000)	$ (13,500)	$ (14,000)	$ (39,500)
Current Forecast Operating Surplus/(Deficit)	1,763	(7,248)	(10,050)	(15,535)
Change in Forecast Operating Surplus	$ 13,763	$ 6,252	$ 3,950	$ 23,965

We currently plan to return the accumulated surplus to market participants when we revise the fees for the next three year cycle. However, as noted, we will be reviewing our fee structure during 2008.

Management's Responsibility and Certification

Management is responsible for the integrity, consistency and reliability of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

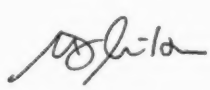
We certify that we have reviewed the financial statements and other information contained in the annual report, and, based on our knowledge, they do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the statements and the annual report.

Based on our knowledge, the financial statements together with other financial information included in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Ontario Securities Commission as of the dates and for the periods presented. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions, and are believed to be reasonable.

We are responsible for establishing and maintaining internal control over financial reporting for the Commission. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

We have disclosed in the MD&A any change in our internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Board of Directors ensures that management fulfills its responsibility for financial reporting and internal control. The financial statements have been reviewed by the Audit and Finance Committee and approved by the Board of Directors. The Auditor General's Report, which follows, outlines the scope of the Auditor's examination and opinion on the financial statements.



W. David Wilson
Chair and Chief Executive Officer

A. Kenneth Gibson, CA
Director, Corporate Services

May 9, 2007

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2007 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

J. R. McCarter, CA
Auditor General
Licensed Public Accountant

Toronto, Ontario
May 9, 2007

Balance Sheet

As at March 31

	2007	2006
ASSETS		
CURRENT		
Cash	$ 58,770,149	$ 55,900,077
Accounts receivable	1,707,830	1,469,999
Prepaid expenses	777,250	337,761
	61,255,229	57,707,837
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 3)	5,611,341	4,700,795
FUNDS IN TRUST (Note 4)	16,174,925	8,865,176
RESERVE FUND ASSETS (Note 5)	32,000,000	32,000,000
CAPITAL ASSETS (Notes 6, 12(b))	3,229,307	4,017,062
	$118,270,802	$ 107,290,870
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 10,737,044	$ 9,927,782
Current portion of obligation under capital leases (Note 12(b))	198,037	139,215
	10,935,081	10,066,997
NON-CURRENT		
Obligation under capital leases (Note 12(b))	246,743	295,931
Pension liabilities (Note 7(b))	1,409,779	1,231,788
	12,591,603	11,594,716
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 3)	5,611,341	4,700,795
FUNDS IN TRUST (Note 4)	16,174,925	8,865,176
SURPLUS		
OPERATING		
General (Note 8)	51,794,689	50,031,939
Reserve (Note 5)	32,000,000	32,000,000
	83,794,689	82,031,939
CONTRIBUTED	98,244	98,244
	83,892,933	82,130,183
	$118,270,802	$ 107,290,870

Investor Education Fund (Note 9)
Commitments and Contingencies (Notes 10,12)
See accompanying notes to Financial Statements.

ON BEHALF OF THE BOARD OF THE COMMISSION

W. David Wilson
Chair

David L. Knight, FCA
Commissioner

Statement of Operations and Operating Surplus

For the year ended March 31

	2007	2006
REVENUES		
Fees (Note 8)	$ 67,784,003	$ 79,977,793
Investment income	3,139,931	1,872,001
Miscellaneous	143,024	1,199,757
	71,066,958	83,049,551
EXPENSES		
Salaries and benefits (Note 11)	51,507,726	48,871,068
Administrative	5,142,855	5,262,735
Occupancy (Note 12(a))	5,103,973	4,569,769
Professional services (Note 11)	4,826,948	3,826,706
Amortization	1,771,296	2,329,622
Other	951,410	963,071
	69,304,208	65,822,971
EXCESS OF REVENUES OVER EXPENSES	1,762,750	17,226,580
OPERATING SURPLUS, BEGINNING OF PERIOD	82,031,939	64,805,359
OPERATING SURPLUS, END OF PERIOD	$ 83,794,689	$ 82,031,939
Represented by:		
General	$ 51,794,689	$ 50,031,939
Reserve	32,000,000	32,000,000
	$ 83,794,689	$ 82,031,939

See accompanying notes to Financial Statements.

Statement of Cash Flows

For the year ended March 31

	2007	2006
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess of revenues over expenses	$ 1,762,750	$ 17,226,580
Items not affecting cash		
Pension liabilities	177,991	117,041
Loss/(gain) on disposal of capital assets	3,896	(29,608)
Amortization	1,771,296	2,329,622
	3,715,933	19,643,635
Changes in non-cash working capital:		
Accounts receivable	(237,831)	16,722
Prepaid expenses	(439,489)	24,015
Accounts payable and accrued liabilities	809,262	1,486,278
	131,942	1,527,015
	3,847,875	21,170,650
Cash flows from financing activities		
Repayment of obligations under capital leases	(147,959)	(29,146)
	(147,959)	(29,146)
Cash flows from investing activities		
Proceeds from sale of capital assets	615	144,625
Purchase of capital assets (Note 6)	(830,459)	(1,974,898)
	(829,844)	(1,830,273)
NET INCREASE IN CASH POSITION	2,870,072	19,311,231
CASH POSITION, BEGINNING OF PERIOD	55,900,077	36,588,846
CASH POSITION, END OF PERIOD	$ 58,770,149	$ 55,900,077

See accompanying notes to Financial Statements.

Notes to the Financial Statements

March 31, 2007

1. NATURE OF THE CORPORATION

The Ontario Securities Commission (the "Commission") is a corporation without share capital and functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities marketplace in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Investments

Investments are carried at cost, which approximates market value.

b) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition, as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Leasehold improvements	over term of lease

c) Revenues

Fees are recognized when earned, which is normally upon receipt.

Recoveries of costs of investigations are recorded as offsets to the relevant expense upon date of decision, unless management determines there is significant doubt as to ultimate collection, in which case recovery is recognized when cash is received.

d) Funds Held Pursuant to Designated Settlements and Orders

Funds held pursuant to Designated Settlements and Orders are recorded when settlements are approved or orders made, unless management determines there is significant doubt as to ultimate collection, in which case they are recognized when cash is received.

e) Employee Benefit Plan

The Commission provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan.

The Commission also maintains supplementary unfunded pension plans for certain full-time members as described in note 7(b). The Commission accrues its obligations and the related costs under these supplemental unfunded pension plans. The transitional obligation and actuarial gains or losses are being amortized over the average remaining service period of active members, or over the life expectancy of inactive members, expected to receive benefits under these plans. For purposes of valuation, the actuarial liability and the current service cost is determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

The costs of post-retirement non-pension benefits are not included in the Statement of Operations and Operating Surplus as described in note 13(c).

f) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

3. FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS

The Commission has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine. The balance includes a settlement for $1,900,000, which is subject to the approval of the responsible Minister as required under the provision of the *Securities Act* in effect at the time the settlement was approved. The accumulated funds are held in a segregated bank account and earn interest at a rate of the monthly average bank prime rate less 1.75%.

As at March 31, 2007, the accumulated balance is determined as follows:

	2007	2006
Opening balance	$ 4,700,795	$ 2,501,008
Settlements and Orders	711,883	2,166,560
Uncollected Settlements written off	–	(89,400)
Interest	215,663	122,627
Payments	(17,000)	–
Closing balance	$ 5,611,341	$ 4,700,795
Represented by:		
Cash	$ 5,591,158	$ 4,655,125
Receivables	20,183	45,670
	$ 5,611,341	$ 4,700,795

4. FUNDS IN TRUST

During the year, the Commission received payments from the operator of the System of Electronic Data Analysis and Retrieval ("SEDAR"), the National Registration Database ("NRD"), and the System for Electronic Disclosure by Insiders ("SEDI") representing the accumulated surplus from the operations of SEDAR, NRD, and SEDI. The total accumulated funds as at March 31, 2007 were $16,174,925 (2006 – $8,865,176) representing total payments received of $15,464,752 (2006 – $8,606,532) and interest earned of $710,173 (2006 – $258,644). These funds are to be held by the Commission in accordance with agreements amongst the Commission, the Alberta Securities Commission, the British Columbia Securities Commission, L'Autorité des marchés financiers and, in the case of NRD, the Investment Dealers Association of Canada, and shall be used to offset any shortfall in revenues from the systems, develop or enhance the systems and reduce systems' fees. These funds are held in a segregated bank account and earn interest at a rate of the monthly average bank prime rate less 1.75%.

5. RESERVE FUND ASSETS

a) As part of the approval of its self-funded status, the Commission was allowed to establish a $20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. The accumulated funds, at March 31, 2007, have been invested in one year Government of Ontario treasury bills with the Ontario Financing Authority.

b) The May 2, 2000, Budget proposed that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors. Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. At March 31, 2007, legislation has not yet been introduced.

The Commission received approval in 2002 from the Ministry of Finance to retain $12.0 million, which may only be used toward implementation costs of the proposed merger and is subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

i) The monies will be paid to the Consolidated Revenue Fund, in part or in full, if not required to fund the costs of the merger; and

ii) While retained by the Commission, the monies will be invested with the Ontario Financing Authority.

c) Reserve fund investments are carried at cost as described in Note 2(a). The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the Commission.

Notes to the Financial Statements

March 31, 2007

6. CAPITAL ASSETS

	Cost	Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
Office furniture	$ 3,425,305	$ 2,913,017	$ 512,288	$ 654,818
Office equipment	580,424	351,491	228,933	286,976
Computer hardware and related applications	13,443,480	12,076,883	1,366,597	1,724,390
Leasehold improvements	7,252,225	6,130,736	1,121,489	1,350,878
	$ 24,701,434	$ 21,472,127	$ 3,229,307	$ 4,017,062

During the year, capital assets were acquired at an aggregate cost of $988,052 (2006 – $2,439,190) of which $157,593 (2006 – $464,292) were acquired by means of capital leases.

7. PENSION PLANS

a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2007, was $2,684,244 (2006 – $2,498,157) and is included in salaries and benefits.

b) The unfunded supplemental pension plans for the Commission's current and former Chairs and Vice-Chairs had an accrued benefit obligation of $1,311,797 at March 31, 2007 (2006 – $1,217,986) and an accrued benefit liability of $1,409,779 (2006 – $1,231,788). The Commission's related expense for the year was $248,910 (2006 – $169,999) and is included in salaries and benefits. Benefits totaling $70,919 were paid during the year (2006 – $52,958). The average remaining service lifetime of the active members covered by these plans ranges from .85 to 4.59 years at March 31, 2006 (2005 – .25 to 3.88 years); the 2006 figures were used for amortization purposes in fiscal 2007. The average life expectancy of the non-active members ranges from 18.13 to 24.22 years at March 31, 2006 (2005 – 22.48 years). The significant actuarial assumptions adopted at March 31, 2007 include a discount rate of 4.75% (2006 – 5.0%) and a rate of compensation increase ranging from 2.1% to 3.0%, as applicable (2006 – 2.1% to 3.0%).

8. FEES

The Commission's fee regime is designed to generate fees that reflect the Commission's cost of providing services to market participants. The fee regime is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of Commission staff resources expended in undertaking certain activities requested of staff by market participants. Under this fee model, the Commission sets fees estimated to reflect the cost of regulation over a three-year horizon. The forecasted General Operating Surplus at March 31, 2006, was used to establish a reduced level of participation fees for the three-year cycle which began April 1, 2006.

Details of fees received for the year ended March 31, 2007, are as follows:

	2007	2006
Participation Fees	$ 54,813,878	$ 65,758,682
Activity Fees	10,731,993	12,126,591
Late Filing Fees	2,238,132	2,092,520
Total	$ 67,784,003	$ 79,977,793

9. INVESTOR EDUCATION FUND

a) The Investor Education Fund (the "Fund") was incorporated by letters patent of Ontario dated August 3, 2000, as a non-profit corporation without share capital. The Fund is managed by an independent Board of Directors and its purpose is to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. The Commission oversees the Fund as the sole voting member. The Fund is exempt from income taxes.

The Fund has not been consolidated in the Commission's financial statements. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2007 and 2006 and for the two years ended March 31, 2007 are as follows:

	2007	2006
Financial Position		
Total assets	$ 2,535,910	$ 4,095,205
Total liabilities	355,542	276,959
Invested in capital assets	1,617,925	788,002
Available for Fund purposes	562,443	3,030,244
Total net assets	2,180,368	3,818,246
	$ 2,535,910	$ 4,095,205
Results of Operations		
Total interest income	$ 97,277	$ 120,886
Total expenses	1,735,155	1,834,640
Deficiency of revenue over expenses	($1,637,878)	($1,713,754)
Cash flows		
Cash flows from operating activities		
Investment income received	$ 104,415	$ 119,996
Cash paid for initiatives and expenses	(1,393,492)	(1,416,093)
Cash paid for capital purchases	(1,123,266)	(342,871)
Net decrease in cash position	(2,412,343)	(1,638,968)
Cash position, beginning of period	3,296,294	4,935,262
Cash position, end of period	$ 883,951	$ 3,296,294

b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:

i) The Board of the Commission authorizes transfers of the Funds Held Pursuant to Designated Settlements and Orders to the Fund in accordance with the Minister's approval and its own authority under the *Securities Act*. In 2007, the Board of the Commission did not authorize any such transfers to the Fund (2006 – $0).

ii) The Commission has a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

For the period ended March 31, 2007, the Commission incurred costs totalling $565,788 (2006 – $553,162) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, $103,327 is owing to the Commission as of March 31, 2007 (2006 – $128,234).

10. COMMITMENTS AND CONTINGENCIES

a) The Commission has committed to paying 45.1% of annual shortfalls resulting from the operations of SEDAR, where SEDAR operating costs exceed revenues. SEDAR is an electronic filing and payment system jointly used by the members of the Canadian Securities Administrators (CSA) for the transmission, receipt, acceptance, review and dissemination of documents filed in an electronic format. The system is operated by an external agency on behalf of the CSA under an agreement signed on August 1, 2004. The Alberta Securities Commission, the British Columbia Securities Commission and L'Autorité des marchés financiers have also committed to paying a specified percentage of any annual SEDAR deficit.

In the current year, there were no SEDAR deficits. As described in Note 4, the Commission is holding funds in trust that may be used to offset shortfalls in revenue in SEDAR, SEDI, and NRD. As at March 31, 2007, $12,485,730 (2006 – $8,865,176) of the total funds held in trust are available for SEDAR.

b) The Commission is involved in various legal actions arising from the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time, however Management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on the Commission's financial position.

11. RECOVERY OF COSTS OF INVESTIGATIONS

In 2007, the Commission applied $185,000 (2006 – $417,327) in recoveries of the costs of investigations against salaries and benefits and $34,911 (2006 – $684,173) against professional services.

12. LEASE OBLIGATIONS

a) Operating

The Commission is committed to operating lease payments as follows:

2008	–	$ 4,878,084
2009	–	$ 4,922,695
2010	–	$ 4,952,214
2011	–	$ 4,989,674
2012	–	$ 4,966,340
Thereafter	–	$ 2,067,607

b) Capital

The Commission has entered into capital lease agreements for computer equipment. Leases that substantially transfer all of the benefits and risks of ownership of property to the Commission, or otherwise meet the criteria for capitalizing a lease under Canadian generally accepted accounting principles, are accounted for as capital leases. An asset is recorded at the time the capital lease is entered into, together with its related obligation to reflect its purchase and financing. Computer equipment recorded under capital leases is amortized on the same basis as computer hardware and related applications as described in note 2(b). The total interest expense recorded on the lease obligations for the year ended March 31, 2007 is $22,581 (2006 – $6,135). The following is a schedule of future minimum lease payments for the capital leases, which expire on or before February 28, 2010:

Year Ending March 31		
2008	$	218,492
2009		207,235
2010		49,707
Total minimum lease payments		475,434
Less: Amount representing interest at 6%		30,654
Balance of the obligation	$	444,780

13. TRANSACTIONS WITH PROVINCE OF ONTARIO

In the course of normal operations, the Commission entered into transactions with the Province of Ontario as follows:

a) The *Securities Act* states that when ordered to do so by the responsible Minister, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in note 8 and the Commission's practice of setting fees in three-year cycles, the Commission is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the Commission are subject to appropriate terms and conditions to be agreed with the Ministry.

b) The Commission has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.

c) Costs of post-retirement non-pension employee benefits are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus.

14. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to current presentation.

Strategy and Project Management: Clearwater Communications, Design and Production: Weave Communications, Photography: Geoff George Photography

As the regulatory body responsible for overseeing the capital markets in Ontario, the Ontario Securities Commission administers and enforces the provincial *Securities Act*, the provincial *Commodity Futures Act* and administers certain provisions of the provincial *Business Corporations Act*. The OSC is a self-funded Crown Corporation accountable to the Ontario Legislature through the Minister responsible for securities regulation.

ONTARIO SECURITIES COMMISSION

2007 Annual Report